

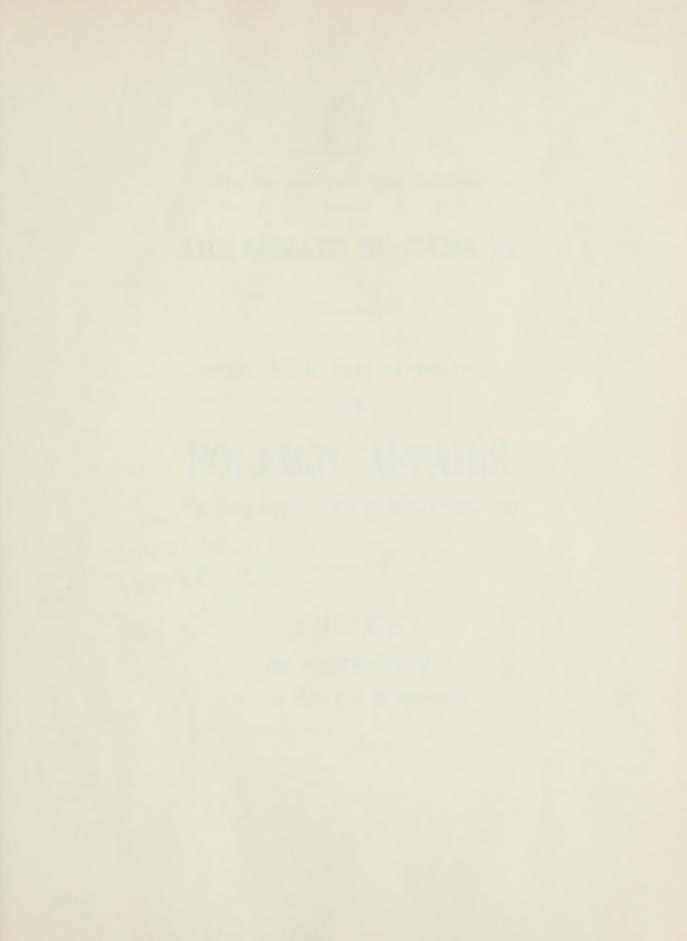
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Third Session—Twenty-eighth Parliament 1970-71

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

JUN 2.7 1972 *

UNIVERSITY OF USECUTION

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- -MacNeil, J. L., Chief, Pacific Division, Industry, Trade and Commerce Department 17:11, 17:13-14
- -Métivier, Jean-Marc, Director, Asia Programs, Canadian Universities Service Overseas 15:7, 15:11-13
- -Pepin, Hon. Jean-Luc, P. C., Minister of Industry, Trade and Commerce 2:5-21, 17:5-11, 17:14-18

- -Petrie, F. R., Director, Pacific, Asia and Africa Branch, Industry, Trade and Commerce Department 2:12-13, 2:20, 17:7-18
- -Pope, Thomas, Assistant Vice-President, Bankers Trust Company, New York City 9:5-18
- Ronning, Chester A., Former Canadian High Commissioner to India 10:5-19
- -Sallery, Robert D.H., Editor-in-Chief, "Readings in Development", "Newstatements", Canadian Universities Service Overseas 15:6, 15:9, 15:13-14
- -Snarr, William, Director of Policy Guidance, Finance Division, National Defence Department 8:12, 8:17
- -Sprules, W.M., Director, International Fisheries Branch, Fisheries and Forestry Department 12:9, 12:12-13
- -Talbot, Phillips, President, The Asia Society, New York City 18:5-15
- -Taylor, Gail Ann, Assistant to Director of Fund Raising, Canadian Universities Service Overseas 15:13
- -Ward, Rick, Desk Officer, Asia Area, Canadian International Development Agency 16:11

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Chairman:

-Aird, Hon. John. B. (Toronto) 1:5, 1:7, 1:11-13, 1:15-16, 1:18, 2:5-6, 2:9, 2:11-12, 2:14-17, 2:20-21, 4:5, 4:7-8, 4:10-13, 4:15-16, 4:18-19, 4:21, 4:23, 5:5, 5:8, 5:22, 6:5, 6:8-9, 6:11-12, 6:14, 6:22-23, 6:25, 7:5, 7:10, 7:12, 7:14-15, 7:17-18, 8:5, 8:7, 8:9-14, 8:17-18, 9:5-6, 9:14-15, 9:17-18, 10:5, 10:8, 10:16, 10:19, 11:16-18, 11:21, 12:5, 12:16, 12:18, 12:21, 13:5, 13:11, 13:13-14, 13:17, 14:5, 14:8, 14:10, 14:12, 14:14-15, 15:5-6, 15:8-15, 17:5, 17:7, 17:9, 17:13, 17:18, 18:5, 18:14-15

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- -Belisle, Hon. Rhéal (Sudbury) 1:7, 1:12, 9:8-10, 9:14, 13:12, 13:14, 13:16, 15:8, 18:9-10
- -Cameron, Hon. Donald (Banff) 2:6, 2:9-13, 2:16, 2:21, 4:13, 9:10, 9:14, 14:8-11, 14:13-14, 16:8-12, 16:17, 18:8-10
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- -Choquette, Hon. Lionel (Ottawa East) 15:14
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- -Croll, Hon. David A. (Toronto-Spadina) 5:10-13, 5:20, 11:20-21
- -Fergusson, Hon. Muriel McQ. (Fredericton) 5:17-18, 8:11, 10:14-15, 13:11-13, 14:10, 17:12-13
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- -McElman, Hon. Charles (Nashwaak Valley) 2:20, 8:8, 8:16-17
- -McLean, Hon. Donald Allan (Charlotte County) 12:12, 12:17-18, 13:16-17
- -McNamara, Hon. Wm. C. (Winnipeg) 3:9, 3:11-12, 4:9-10, 4:20, 5:19, 9:8, 9:16, 10:11-12, 11:13, 15:10, 16:7-8, 16:10, 16:15, 16:18, 17:11-13, 17:15-17
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- -Nichol, Hon. John (Lion's Gate) 1:14-16, 8:12, 8:15-16
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- -Pearson, Hon. Arthur M. (Lumsden) 1:16-17, 2:12, 3:6, 3:13, 3:16, 6:19, 6:21-22, 6:24, 7:11-12, 7:17, 8:9, 8:17, 9:5, 9:15-16, 10:18-19, 11:18-19, 12:9, 12:16, 12:20
- -Quart, Hon. Josie D. (Victoria) 17:14-15
- -Rattenbury, Hon. Nelson (Southern New Brunswick) 11:17-18, 18:14
- -Robichaud, Hon. Hédard (Gloucester) 4:18-20, 5:17, 6:15, 6:19, 8:16-17, 9:9, 12:8-13, 12:15-20, 14:11-12, 17:14-15
- -Sparrow, Hon. Herbert Orville (Battlefords) 5:19-20
- -Sullivan, Hon. Joseph A. (North York) 1:15-16
- -White, Hon. George S. (Hastings-Frontenac) 1:17, 15:12, 16:8
- -Yuzyk, Hon. Paul (Fort Garry) 5:14-17, 11:10-11, 11:14, 17:16-17, 18:10-11

Senators present but not of the Committee:

- -Casgrain, Hon. Thérèse F. (Mille Îsles) 7:16-17
- -Heath, Hon. Ann-Elizabeth (Nanaimo-Malaspina) 4:5
- -Inman, Hon. F. Elsie (Murray Harbour) 14:14

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Third Session—Twenty-eighth Parliament
1970

THE SENATE OF CANADA



PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

Foreign Affairs

The Honourable JOHN B. AIRD, Chairman

No. 1

WEDNESDAY, OCTOBER 21, 1970 TUESDAY, OCTOBER 27, 1970

Respecting

THE PACIFIC AREA

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman and

The Honourable Senators:

Belisle Macnaughton
Cameron McElman
Carter McLean
Choquette Nichol

Connolly (Ottawa West) O'Leary (Carleton)

Croll Pearson
Eudes Quart
Fergusson Rattenbury
Gouin Robichaud
Haig Sparrow
Hastings Sullivan
Laird White

Lang Yuzyk—(30)

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Minutes of Proceedings

Wednesday, October 21, 1970.

Pursuant to notice, the Standing Senate Committee on Foreign Affairs met *in camera* at 10:30 a.m. this day to deal with anumber of administrative matters.

Present: The Honourable Senators Aird (Chairman), Belisle, Carter, Fergusson, Haig, Hastings, Laird, Pearson and Robichaud—(9).

In attendance: Peter Dobell of the Parliamentary Centre for Foreign Affairs and Foreign Trade.

On motion of Senator Haig, Resolved that a Steering Committee be appointed, comprised of Senators Aird, Grosart, Robichaud and ex officio Martin and Flynn.

On motion of Senator Fergusson; Resolved that 800 copies in English and 300 copies in French of the Committee's proceedings be printed.

On motion of Senator Belisle; Resolved that the Steering Committee be authorized, subject to confirmation by the Committee, to negotiate contracts and agreements for goods and services reasonably and necessarily required for the purposes of the Committee.

On motion of Senator Robichaud, the Chairman (Senator Aird) was authorized to report to the Senate that this Committee has expended, during the past two sessions while studying Canada-Caribbean Relations, the sum of \$69,925.93 and that expenses for printing not yet accounted for will amount to approximately \$7,000.00.

The Chairman was authorized to submit to the Senate Committee on Internal Economy and Contingent Accounts a budget of expenses to be incurred in connection with this Committee's hearings respecting the Pacific Area.

Discussion following respecting the Committee's future programme.

At 11:00 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee. Tuesday, October 27, 1970

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met this day at 4:00 p.m.

Present: The Honourable Senators Aird (Chairman), Bélisle, Cameron, Carter, Croll, Eudes, Fergusson, Hastings Laird Nichol Pearson Robichaud Sullivan White. (14)

In attendance: Mr. Peter Dobell Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mr. Bernard Wood, Special Assistant to the Committee.

The Committee commenced its study of the Pacific Area.

The Chairman introduced the witness:

Dr. Lorne Kavic Lecturer in International Politics, University of British Columbia.

The witness was thanked for this contribution to the Committee's study.

At 5:40 p.m. the Committee adjourned to Wednesday, November 4, 1970 at 2:00 p.m.

ATTEST:

Denis Bouffard, for E. W. Innes.

Clerk of the Committee

Note: A map of the Pacific Area is appended to this day's proceeding.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, October 27, 1970

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 4 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of 4 o'clock and I see a quorum, and I therefore call the meeting to order.

It is an unexpected and unusual surprise for all of us here today to see our former distinguished colleague the honourable Norman "Larry" MacKenzie in the back row, and on behalf of all of you I wish to extend him a most hearty welcome.

Hon. Senators: Hear, hear.

The Chairman: The other piece of news I would like to give you is that unfortunately our secretary, Eric Innes, suffered a mild heart attack last Friday. I was speaking to him about half an hour ago—he is in the hospital—so you will gather that he is progressing very well and expects to be back on duty quite soon. We have today in his place Mr. Bouffard and I welcome him on behalf of the committee.

Honourable senators, this is the first hearing of our new inquiry or study into Canadian relations with the countries of the Pacific area. As you know, our terms of reference are very broad, and we are certainly talking about a vast and varied geographic region. For purposes of definition, I might point out at this stage that we will not be giving direct attention to the United States, the Latin American countries bordering on the Pacific Ocean, or to the Soviet Union.

Even after these exclusions, however, the term "Pacific area" obviously encompasses a great deal. In many senses, this is not a single area at all; the differences among the countries often outweigh the similarities. There is, however, a strong case from a Canadian point of view for examining these countries together. The Prime Minister has aptly spoken of "our Pacific frontier"—a phrase that suggests the rapidly expanding consciousness of the whole area among Canadians.

For this first meeting we have been very fortunate in obtaining an expert witness whose knowledge extends not only to all the territories, but also to the many issues involved in these relationships. Dr. Lorne Kavic is a Canadian scholar who is at present working, under a Canada Council grant, on a two-volume work on Canada and the Pacific. Just prior to this meeting he advised me that he has completed volume I at this stage.

Dr. Kavic received his master's degree in International Relations from the University of British Columbia in 1960 and then served for a year with the Department of External Affairs. He left to take up a Commonwealth scholarship at the Australian National University, and received his Ph.D. from that institution in 1966. Subsequently he has published a book on India's defence policy and has taught history at Simon Fraser University.

All members of the committee have received a copy of Dr. Kavic's wide-ranging paper entitled "Canada and the Pacific: Prospects and Challenges". I might mention that this paper was originally commissioned jointly by the Canadian Institute of International Affairs and the Department of External Affairs. It provided the focus for discussion at the joint conference held last February as part of the Government's foreign policy review.

Now that the official policy paper on the Pacific has been published, I am sure that Dr. Kavic will be keen to elaborate on the issues brought out in his stimulating paper. His initial remarks will, as usual, be followed by questioning. In that regard I have asked Senator Laird and he has consented to lead the questioning, after which time the meeting will be open in the usual way to all honourable senators. I have discussed the format with Dr. Kavic, and when I asked him how long he would be, he said "I would be just as long as you wish me to be." I believe that under the circumstances and today when we are dealing with such a broad area, it would probably be advisable to take as much benefit from his knowledge as possible and therefore I have set him an objective of half an hour, and he will be more or less in that neighbourhood.

Dr. Kavic, you are most welcome here today and we look forward to your remarks with great interest.

Dr. Lorne Kavic, Lecturer in International Politics, University of British Columbia: Honourable senators, as you can see, I have come well stocked for the purposes of expanding at any length on my views. Like most academics, I have a facility for speaking at great length, if necessary; also I hope I have the ability to be relevant and brief.

For the purpose of my approach today I will proceed on the basic assumption that you are either familiar with the views that I have set forth in the "Behind the Headlines" paper and/or have read the background government papers on the basically similar subjects. For that purpose, therefore, I do not intend to regurgitate precisely what I have there. However, I do hope to expand on those views, providing a little more information upon which, hopefully, more pertinent questions can be posed, as well as to provide a certain amount of background.

I think it is most important to appreciate that Canada's interests, policies and relationships in the Pacific rim have been developing for a very long period of time, depending on the particular issue and area discussed. Although interest is more recent, certainly at the public level and, from a dramatic point of view, from the Gov-

ernment level, you must appreciate that trade contacts go back several centuries, immigration certainly goes way back beyond that, if one accepts the Polar thesis of the Indian migrations. As far as issues of strategic consequence are concerned, these certainly pre-date the turning of this century. As far as aid and related subjects are concerned, you must appreciate that missionaries proceeded to make a contribution, in a peripheral aid sense, in the Pacific rim from approximately the middle of the last century. And there were certain private aid measures as well as sporadic government emergency measures which predated the formulation of precise foreign aid or international development policies.

From the standpoint of immigration, Canada has, of course, a considerable legacy with which to cope. Canada is a product of immigration, but although only a modest portion of our existing population, exclusive of the Indians, originates in the trans-Pacific rim, nonetheless the Asiatic aspect of this immigration was a considerable problem for Canadian governments and a feature which certainly affected our relationships with the governments of British India, China and Japan, down to the outbreak of the Second World War.

Although the actual numbers of immigrants involved was relatively small and many of these did not stay in Canada permanently, they created a considerable problem in the Province of British Columbia, where the impact was most immediate in the human sense, and constituted a considerable dilemma for Canadian goverments which were anxious not to do anything which might adversely affect Imperial relationships with China and Japan, and exacerbate Britain's increasing problems in a steadily more turbulent India.

The attitude taken by the Government in this respect reflected a consideration of power relationships and a variable attitude towards trade, and a concern, of course, for the primacy of the federal sphere from the standpoint of disallowing unacceptable provincial legislation.

Basically speaking, China was impotent; Imperial relationships with China were not regarded as a particularly sensitive issue; and, accordingly, measures were adopted, beginning with the so-called head tax which was increased from \$50 to \$100 and, ultimately, to \$500, and subsequent imposition of a variety of restrictions, culminating in the Exclusion Act of 1923, which only approximately a dozen Chinese were ultimately able to surmount.

The attitude of the Chinese government to these measures was extremely sensitive, but the Canadian Government did not reveal more than a passing concern for the problems or the viewpoints of an impotent China, and the Government was quite prepared to sacrifice trade to this question.

The problem of British India was more ticklish in view of the fact that this was part of the Empire, it was the so-called jewel of the Empire, and the problems which the British Indian Government was facing, from the turn of the century on, caused a sensitivity in Canadian Government circles, desirous not to exacerbate that problem; the degree to which Canadian measures could exacerbate the British position in India was reflected by the reper-

cussions in India in the aftermath of the famous "Komagata Maru" incident of 1914.

Ultimately, a combination of co-operation from the Government of India and some rather neat and subtle types of legislation by the Canadian Government, including the so-called continuous voyage principle—which prevented Indians from moving to Canada at a time when there was no possibility of a continuous voyage from their Indian land of origin—subsequently coped with the problem quite adequately.

As far as the Japanese were concerned, this was a particularly sensitive issue. The Japanese were very proud; but fortunately they were not particularly concerned with migration, and when Japanese migrants did indicate an interest in the so-called eastern Pacific, much of this initially went to the Hawaiian region and to the western United States. When the problem did appear in Canada, fortunately the Japanese government adopted a self-imposed restrictive policy, ultimately augmented by a receptiveness to Canadian sensitivities on this score, culminating in the gentleman's agreement of 1907, and subsequent measures which rendered the application of that agreement even more restrictive.

On the eve of the Second World War the ultimate product of this policy was that Canada had basically been maintained as a white man's preserve, and there was certainly no intention on the part of the Government to let the walls down easily. Prime Minister King reiterated that this was also to be the post-war policy in his famous statement of May 1, 1947.

However, ultimate developments in Asia rendered this policy imprudent, to say the least, and the result was the establishment of quotas and, ultimately, subsequent concessions leading down to the present immigration legislation, whereby the emphasis is upon the criteria of skills.

The discrimination of the present policy on the basis of skills, however, does effectively exclude the majority of Asians. It is completely at odds with the view advanced by some people, like Professor S. Chandrasekhar of Baroda University in India, until recently a member of the Indian cabinet, who enunciated in one impassioned book the belief that "empty" lands like Canada could not justify their emptiness while people were starving in crowded lands elsewhere.

The policy, of course, is also not pleasing to Australians and New Zealanders, conditioned to relatively unrestricted access to a sister "white" dominion, and especially to those unable to surmount the points system, when there are no similar restrictions on the emigration of Canadians to Australia and New Zealand. The proportion of immigration visas issued and refused from applications received in the Pacific area indicates the degree that one can expect a certain amount of ingratitude. As a result, this policy is not going to ingratiate Canada to the many prospective immigrants who are failing and will in future fail to gain acceptance. Local agitators unfriendly to Canada will, in my opinion, continue to possess opportunities to embarrass Canada's local image, and Canada has little choice but to accept this as a normal hazard of contemporary international politics.

Foreign Affairs

The skills bias of the new policy must also be viewed from the standpoint of the attitudes of governments in the area, especially in those countries with developing economies relevant to the so-called brain drain. Is the drain serious? Is it resented by local government and inimical to Canadian diplomatic goals in the region, in view of Canada's stated commitment to providing development assistance to regional economies? Is the new policy doing these countries a disservice by accepting and even seeking out diverse skills, especially of a managerial, professional and technical nature?

The answers would seem to vary from country to country, with a general sensitivity by governments to the exodus of professional, managerial and technical personnel, and an attitude varying between acceptance and active encouragement by most Asian governments of the emigration of persons trained in the liberal arts, due to a general surplus of such skills resulting from a combination of educational traditions, bad planning and the difficulty of accurately forecasting future needs.

The emigration of educated unemployables is desirable in certain countries from the standpoint of precluding the development of a politically volatile unemployed or underemployed educated class. The exodus of skills to Canada is causing some concern in Australia, with particular criticism of Canadian recruitment practices provoked by the loss of airline pilots from Qantas to C.P.A. in 1966.

Senator Belisle: Mr. Chairman, could we ask the doctor to go a little slower? It is so important, I would like it to sink in.

The Chairman: Thank you very much, Senator Belisle. Would you be guided accordingly?

Dr. Kavic: I certainly will. The exodus of skills to Canada is causing some concern in Australia, with particular criticism of Canadian recruitment practices being provoked by the loss of airline pilots to CPA in 1966, forcing the cancellation of Qantas' weekly Sydney-Auckland-Mexico City run in August of that year, and the highly publicized exodus of hundreds of public school teachers since 1965 with the strong encouragement of British Columbia, Ontario, and Alberta education authorities. In the former case, some Australians voiced the view that CPA was "stealing" pilots, and thereby contravening the "gentlemen's agreement" between the two countries precluding official recruitment.

Such was the concern of Donald Shand, founder and chairman of East-West Airlines of New South Wales that he suggested a full university course for pilot training with a doctorate of aviation degree. In the latter case, the British Columbia recruiting drive in 1967 prompted protests from Australian educators, and the success of the Toronto recruiting team in 1967 provoked expressions of alarm and dismay. Mr. W. B. Russell, Assistant Director of the Victoria state education department was quoted in January 1968 as stating that teacher recruiting tactics by Canadian provinces were against the spirit of Commonwealth education, and as warning that "it is very likely that this matter will be raised by Britain or Australia

next month at a Conference on Commonwealth Co-operation in Education to be held in Lagos." The New South Wales Minister of Education, Mr. Cutler, has also been very critical. The sense of grievance, however, is moderated by recognition that Australia is drawing heavily from other countries including Canada, to meet its own needs, that much of the human loss is short term, and that Australia's developing economy will eventually provide the opportunities presently drawing most professionals to Canada.

The "brain drain" from New Zealand is far greater than from Australia—to which much of it goes—and the loss of trained people like teachers and dentists, which has seriously affected the School of Dentistry at the University of Otago, is regretted but not resented. It is generally appreciated that the local economy does not now provide, nor is likely to be able to provide, useful opportunities for many skills attractive to young New Zealanders, and that a certain overseas drain is inevitable. Consolation is also being drawn from the influx of Canadian immigrants which roughly offsets quantitatively the loss to Canada.

The attitude of Fijian officials generally coincides with that held in New Zealand—regret at the departures of skilled young people, tempered by a realization that local opportunities for many of them are limited.

The desire for migration is strong in Hong Kong, where the ever present threat of communist Chinese occupation inhibits long term economic planning, with even technical and scientific graduates unable often to find suitable employment, and is implicitly encouraged by authorities acutely conscious of the potential danger of an under-employed and unemployed educated Chinese element.

The pressures are somewhat less in Singapore, where the Government is energetically exploiting geography and relative security from external aggression to establish industries capable of affording employment for the tiny nation's expanding and increasingly skilled population. But the economic future remains sufficiently uncertain as to motivate at least some Singaporeans into seeking security through emigration—not least those students privately trained abroad and not accorded the preference in employment provided by the Government to its sponsored Columbo Plan students.

The South Korean government, engaged in industrialization, appears to be well disposed to emigration of surplus skills, such as mining.

Japan, the most developed country in the region, would seem to be able to suffer the loss of a wide spectrum of skilled persons as the absorptive capacity of the economy loses some momentum, but the Government is exercising great caution in giving clearance to prospective emigrants to Canada and elsewhere, mindful of the ease with which an uncontrolled flow could resurrect latent fears of the "yellow peril," and exacerbate its international relations, and desirous therefore of ensuring a successful transplantation of Japanese nationals creditable to their homeland and unprovocative to their new countries of adoption.

The attitude of the Philippines government towards the emigration of skills would appear to be favourable, despite the fact that such skilled persons as nurses—who figure prominently among the emigrants to Canada—are not in surplus supply in the country.

Such signs of sensitivity to Canadian economic and social conditions are both prudent and farsighted. That Canadians have become more receptive towards Asiatics as residents is suggested by the acclaim that has been accorded in the fifties and sixties to athletes and painters and recently to Seiji Ozawa, the much heralded conductor of the Toronto Symphony Orchestra, and to many others. It has been demonstrated by the election in 1957 of Douglas Jung as Canada's first parliamentarian of Asiatic origin, and of Peter Wing as Mayor of Kamloops in 1968, for another first. It has been evidenced in the appointment of George D. Wong as a governor of Simon Fraser University, of Arthur Wakabayashi as Deputy Provincial Treasurer of Saskatchewan, and of numerous persons of Asiatic origin to the staffs of public schools and universities, including Dr. S. Wah Leung as the first head of the School of Dentistry of the University of British Columbia.

Perhaps the most telling point in Canada's favour is the popularity of Canada to prospective Asian emigrants in an age of mass and instant communications quick to expose discriminatory practices and "incidents". It appears beyond doubt that the predominately-Caucasian Canadian people have developed a considerable maturity of outlook on issues of race, religion and creed since World War II, attributable to a combination of conscience, a buoyant economy, a growing awareness of the importance to Canada's future of the non-white world, and the fact that Canada's Asiatic population continues to remain small in relation to Canada's total population, is more widely distributed geographically than in pre World War II days, and is no longer heavily concentrated in the unskilled and semi-skilled sectors of the labour force.

But prejudice is a deeply rooted emotion, which tends to be latent rather than visible during times of full employment and prosperity such as Canada has experienced generally since 1945, but which has always surged with variable aggressiveness when employment prospects in particular restrict. Organized labour, historically the antagonist of Asiatic immigration in British Columbia, remains sensitive to the inflow of persons which "threaten" local wages, employment prospects, and vested union interests. Thus, reports in July 1967 that Canadian mining companies were considering importing South Korean miners to help relieve an acute shortage of underground labour provoked the charge that the proposal meant "coolie labour", having no skill and unable to meet the English language working-knowledge requirements "essential" underground. The employment of a handful of Japanese technicians on the joint Japanese-Canadian pulpmill mentioned at Skookumchuck in southeastern British Columbia sparked protests from officials of another British Columbia union local that its members were qualified and available and should have priority in employment.

Monopolistic self-interest also figures in the rigorous screening foreign-trained doctors, dentists, and other

professionals have to overcome in order to practise their skills in Canada, and there are rising indications among public school and university teaching bodies that recruitment of non-Canadians is acceptable only to the point where it endangers the employment prospects of the native Canadian product. For cultural and historical reasons the non-white immigrant will be more exposed to employment discrimination than the Australian or New Zealander.

Canada is predominantly a Caucasian society, and few Canadians would privately admit that they do not wish it to remain so. This fact will undoubtedly continue to underline the official policy on immigration, however that policy may be represented publicly.

In the field of trade Canadians and other based in Canada have always envisaged the development of the so-called fabled lands of the east as a market for Canadian products, or with Canada being a sort of through highway for the marketing of European products.

Canada established its first trade representative in Australia in 1895. This was the first permanent full-time commercial agent of Canada appointed anywhere in the world. Other representatives were appointed in Japan in 1904, in China in 1906, and in New Zealand in 1910, and between the world wars there were several Southeast Asian posts established. As of 1938 the trans-Pacific rim took 9 per cent of Canada's total exports, and provided just under 5 per cent of its imports. This represented a drop of 14 per cent in the total two-way trade since 1928, and this was primarily due to the unstable conditions prevailing in the Far East during the period of the 1930s. During this period Southeast Asia took an average of 6 per cent of Canada's regional trade. Oceania's climbed from one-third to two-thirds and East Asia's fell accordingly from two-thirds to one-third.

Since the Second World War there has been a significant expansion in trade between Canada and her Pacific neighbours. During the 1946 to 1968 period the two-way trade of the countries of the South Pacific, Southeast and East Asia rose from \$132 million to \$1,740 million, with a sizable balance in Canada's favour, imports increasing from \$45 million to \$640 million, exports from \$87 million to nearly \$1,100 million. The region continues to provide an important market for industrial and secondary raw materials, forest products and food products and a convenient source of textiles, automobiles, electrical goods, light manufactures and other goods.

Most of the trade has been governed by trade agreements providing for reciprocal British preferential tariff and most favoured nation rates augmented by international agreements governing grain, tea and sugar and voluntary restraint arrangements on commodities destructive to domestic Canadian industries, notably textiles. Canadian importers have also profited and been adversely affected by general instability in Pacific Asia and by regional underdevelopment.

Australia and New Zealand have developed into Canada's second most important market for fully processed end products and Canada has enjoyed a particularly favourable balance with Australia, which in recent years has averaged approximately \$100 million per annum.

Southeast Asia has continued to constitute a rather limited market for a variety of Canadian produce, due partly to imperially motivated trading patterns, the difficulties of transportation and the turbulence in the area.

We have witnessed in our trading relations with Japan a considerable concern on the part of the Government that these relationships be facilitated by whatever method possible. The results have certainly proven to be highly beneficial in the past decade, in which Canadian export trade, particularly in raw materials, has boomed considerably. The import trade from Japan has not grown at the same rate, resulting in considerable and beneficial trade surplus in Canada's accounts.

The People's Republic of China, has continued to provide an interesting attraction for many Canadians obsessed with the prospects of selling a toothpick to every Chinese or putting a little wheat in his bowl every day. The results were somewhat belatedly realized; it was only in the late 1950s that the hope of recapturing some of Canada's significant inter-war wheat market in China was realized and, of course, this continues to play an important role in Canadian trading policies.

With regard to the specific details of this trade and the manner in which it developed, in view of the time factor I will not proceed to go into the detail. However, I am certainly prepared to answer any questions on this subject.

As far as the future prospects for the area are concerned, the Pacific region is a rapidly developing trading area with great potential. The gross national product in Pacific non-communist countries doubled in the last ten years and is expected to redouble by 1980.

Trans-Pacific trade represented 45 per cent of Trans-Atlantic trade in 1967, but is growing more rapidly and should quadruple by 1980 with the mutual trade of the five developed Pacific nations, the United States, Japan, Canada, Australia and New Zealand, estimated to be increasing at an average rate of 15 per cent per annum.

The Australian economy is moving rapidly ahead. Japan's economic miracle shows few signs of weakening. Mainland China should offer at least sporadic prospects for a variety of items, hopefully and especially grain. The market for diverse manufactures, capital goods and services is expanding rapidly with the development of Southeast Asia, the increasing sophistication of Australia's import requirements and movements towards liberalization of import control on manufactures in Japan.

These developments, coupled with the efforts of most of the countries of the region to deliberately diversify their export markets and sources of imports, presents the Canadian salesmen with exciting opportunities. There is also the added possibility that Canada could come to constitute some sort of a land bridge linking the Pacific and Atlantic shipping lanes, although this remains extremely speculative at this time.

The potential has provoked visions by Lionel Kent, former Chairman of the Canadian Chamber of Commerce Executive Council, that the Pacific rim area will become Canada's greatest single trade area, larger even than the United States. Arnold Hean, a Burnaby lawyer and member of the Pacific Basin Economic Consultative Com-

mittee, visualizes that the developing economies of the Pacific area will have as profound an effect on Canada's second century as the development of trade in the Atlantic community had on the first.

Canada is reaping considerable profits from Pacific trading, the 1968 exports of \$1,100 million representing 8.4 per cent of total exports and imports of \$640 million accounting for 5½ per cent, with a resultant very important trade balance. Equally significant is the fact that during the 1958 to 1968 decade Canadian exports to Pacific countries increased by 417 per cent as against an increase of 175 per cent to the world, while imports from the Pacific rose over 300 per cent as compared to 138 per cent from the world.

The future fruits of the expanding economies of the Pacific region, however, will fall to the hands of those who aggressively exploit the potential. There is no reason for complacency on the part of the Canadian producer based on geographical contiguity, Commonwealth preferences, past reputations or current quality of goods. The grain grower must contend with peculiarities of diet, world surpluses, extensive price cutting by other producing countries and new milling processes that require a lower proportion of Canada's high quality wheat.

The mining industry must acknowledge that Japanese industry is deliberately seeking to diversify its sources of industrial raw materials. The forest industry faces growing competition from local and foreign suppliers, especially in the important Australian and Japanese markets and from new construction materials, such as steel house frames, in Australia. The manufacturer must contend with restrictive legislation limiting access to the booming Japanese market, efforts by all Pacific states to stimulate local secondary industry and vigorous competition from European, American, Australian and Japanese suppliers.

The Canadian Federal Government continues to show its traditional awareness of the trade potential of the area, although this interest and awareness has been more concerted of late.

The Minister Pepin's visit to various countries in the area following the Tokyo meeting of the Japan-Canada Ministerial Committee in April 1969 was the first such tour by a federal trade minister. A new trade office was opened in Bangkok in February, 1969. Expenditure by the department on Pacific trade promotion has considerably increased in recent years and the Government is becoming more active in participation in trade fairs in the area. An increased security is provided for Canadian exporters as a result of the replacement in October of last year of the Export Credits Insurance Corporation by the Export Development Corporation, possessed of a more flexible power and twice as much capital with which to insure, guarantee and finance Canadian exports in almost any area of activity.

Provincial governments are showing more interest through the establishment of local marketing or information agencies in Japan. Canadian banks are becoming increasingly active in the area, both for the purposes of servicing expanding trade and also, of course, for purposes of adding to their own profit margins. A particular deficiency, however, in the Canadian private sector

response to Pacific trade developments is noticeable in the manufacturing sector, where Australia and New Zealand continue to receive considerable attention, but the other parts of Asia, with the notable belated exception of Japan, continue to be denied the attention which is warranted by their very rapid growth rates. Thus only 14 Canadian firms exhibited at the first Asian International Trade Fair in Bangkok in 1966, only 20 Canadian businessmen attended the 1967 Canton Trade Fair, and only 40, mostly buyers, were among the nearly 3,000 foreign businessmen who attended the 1968 Canton Trade Fair.

In Pacific Asia outside of Japan, the dearth of Canadian salesmanship has been particularly noticeable, and it has been remarked upon by Canadian officials and also by local residents of the area, such as, for example, the National President of the Hong Kong Junior Chamber of Commerce, who during a visit to Canada in 1967 contrasted the aggressive marketing of Australian firms in the Crown colony with the tendency of Canadian businessmen to rely on the Canadian Trade Commissioner to drum up business for them. The cause of this neglect by the Canadian manufacturer, would seem to lie in the comfortable preference for concentrating upon traditional markets in the United States and Europe, and a tendency to rely upon the Canadian Trade Service to drum up business for them in less familiar markets. The continuance of such a posture, however, is manifestly impractical in view of contemporary patterns of competitive trade.

The private manufacturing sector must, therefore, begin to manifest more vigour than hitherto, and also consider the application of more ingenuous methods, not excluding possible combinations for export purposes in various products so as to offset promotional budgets limited partly by the modest to moderate size of many of these companies. Canada must also, of course, recognize that regional parties must sell if they are to buy, and must proceed to consider the degree to which the continuance of various import restraints is inhibiting to the sale of Canadian goods within the region, is contradictory to the strong bilateral trade manifestations which are evident throughout the region, and also is inimical to the securement of the objects for which Canada is expending hundreds of millions of dollars on so-called international development aid.

In the field of investment, the flow of investments between Canada and the lands located within and along the western literal of the Pacific Ocean commenced over 70 years ago, although most of the activity has been since the conclusion of the Second World War. While the scope has been modest in comparison with that which has taken place between the region and countries like the United States, Britain and France, it has not been unimportant in economic terms, either to the investor or to the recipient, nor has it escaped the impact of development in politics.

The story of these investment flows reveals an early and developing private Canadian confidence in and financial commitment to the economies of our neighbours across the Pacific Oceanic mass, the degree to which investors in these lands have been attracted by and contributed to the expanding Canadian economy, and the

clearly mutual and beneficial results that have flowed from these developments. According to data provided the writer by the Dominion Bureau of Statistics, the book value of Canadian direct investment in the countries embraced by the study totalled \$175 million at the end of 1965, and \$190 million at the end of 1966, of which \$154 million was in Australasia, principally Australia. This distribution was heavily weighted in favour of the manufacturing and merchandising sector, with smaller quantities in mining and smelting, and distributed among petroleum, utilities, financial and miscellaneous undertakings.

In the years since the collation of those figures, however, Canadian activity throughout the Pacific rim has steadily increased with new ventures, some of a multi\$100 million variety, involving some of our larger mining concerns, such as Sherritt Gordon, Inco and Placer Development, and also the involvement of dozens of Canadian companies in the manufacturing and, particularly, mining boom that is being experienced by Australia.

With regard to Canada's international development assistance, one must appreciate that missionaries, who have been active in the area from the middle of the 19th century, constituted the thin edge of a belated official policy. They represented a commitment on the part of the private sector, which, although basically a Christian response to the spiritual and material needs of people of diverse cultures, none the less has steadily expanded in scope, has been augmented from the beginning of the second quarter of this century by the activities of an increasing number of private aid agencies, and of course since the Second World War on an increasingly larger scale by the Canadian Government.

In the field of security issues, Canadians have been particularly fortunate in that power political rivalries prevailing in the Pacific area, down until the explosion of Japanese power in 1941, were always inclined in our favour, and did not require any more than sporadic interest on our part. Although Canadians were not neutral in thought with regard to the activities going on in China, to aggressive Japanese policies or to imperial rivalries in the Pacific, they were not called upon to make major sacrifices.

The First World War brought a temporary alarm with regard to German naval ships, but the post-war period witnessed Canada's only major military involvement in the area through the highly contentious despatch of a group of largely unwilling draftees to the Vladivostok area, although the government was sufficiently sensitive to popular opinion on this score to make it completely clear to the commanders on the scene that under no circumstances should any Canadian ever become a casualty in the theatre.

Prior to the Second World War Canada had an increasing concern with the developments in Asia, but the Canadian Government properly declined to undertake initiatives at a time when other major powers with more immediate interests were similarly declining. The commitment in Hong Kong, of course, was a very contentious one, and remains so today, but it maintained the policy of a minimal Canadian military involvement in the sector, and the fall of Japan came before Canada pro-

ceeded to implement what was not a particularly positive policy of military involvement in 1945.

With regard to the developments that have occurred since Canada's military involvement in Korea, in New Guinea and in Indo-China, the facts of these issues are well known, and the public and official attitudes on the question need not be discussed at this time. The future, however, holds out problems for Canada on matters of regional security. Whether Canada can continue to maintain its relatively detached military posture in the area remains a matter in point, which I have dealt with in some degree in my paper, but which I will only expand upon as and to the degree that interest is shown at this time.

The Chairman: Thank you very much, Dr. Kavic. As I have sat here during the last 30 minutes in the chair and listened to Dr. Kavic, the immensity of the challenge facing this committee is becoming more and more clear to me. I think that one of our major problems is going to be trying to focus on certain areas. Dr. Kavic is obviously a veritable encyclopedia of knowledge, on not only the countries but the peoples thereof and relationships involved.

I was interested, Dr. Kavic, that you reoriented the headings from your article and started off with immigration and ended up with security. I presume there is no forethought purpose in that. I would be hopeful that the committee members will now participate in the questioning and I would ask Senator Laird if he would be kind enough to lead.

Senator Laird: Dr. Kavic, let me profess to my ignorance on this whole subject and extend my personal gratitude for your being here today. I am afraid this is true of a lot of eastern Canadians, as you yourself have said in effect in your article.

You can readily imagine that many of us here today are concerned primarily with the recent recognition of mainland China and its effect in several aspects. I should like to steer clear of the political aspects and ask you what you now foresee in connection with our trade with China arising out of this recent recognition. Will it increase and, if so, in what respect?

Dr. Kavic: On the basis of an assessment of the trade benefits accruing to other governments which have recognized China, there is no reason for optimism. One must appreciate, as far as British recognition in 1950 was concerned, that it was followed immediately by the Korean War. Probably the only relevant example one can draw upon in speculating on trade prospects for Canada in relation to our recognition of the People's Republic would be the French recognition in 1964. French recognition was followed by a moderate trade increase over the subsequent years, although France's proportion of increasing Chinese imports actually fell, which suggests that the Chinese, at least down to the present time, have carefully kept politics and economics separate.

Senator Laird: Therefore, frankly you do not anticipate this will have a particularly favourable effect on our trade relations with China? **Dr. Kavic:** No, I do not unless the Chinese leadership is particularly desirous of somehow weaning Canada into advancing more vigorous support for their claim to the Chinese seats in the United Nation's Security Council and General Assembly.

On the trade question, though, it should be noted that Peking bought Ceylonese rubber in the early 1950s at above market prices. Why they did it is difficult to ascertain. This might suggest that the Chinese are not unwilling to use trade as a matter of leverage in other matters and that if they do feel that such leverage will cause a more positive Canadian sponsorship of their position then they might not fail to utilize it.

Senator Laird: Then might they not also consider the closeness of our relationship with the United States of America?

Dr. Kavic: Yes, there have been suggestions. I noticed in the Globe and Mail this morning a report from Hong Kong to the effect that the Chinese regard Canada as a back door to the United States and that they are going to push this to dismantle the embargo which has existed against trade with China. I am afraid, however, that this matter of trade as political leverage must remain rather speculative. On the basis of what China has done in the past, there is no reason for unwarranted optimism regarding major Canadian economic benefit arising out of a diplomatic exchange with China.

Canada has, of course, indicated interest in recognizing China for some time, but during that period Australia has actually been selling more wheat to Communist China than we have. Australia, has taken a much harder line on the Chinese question than we have, which indicates, down to the present time, that the Chinese have not attempted to use wheat as added leverage to get Canada to hurry up and modify its position. Whether it will now proceed to do so, Canada having conceded recognition, remains to be seen.

Senator Laird: Before we leave the subject of China, I was very interested to note on page 7 of your article that you speak in terms of Chinese capital being in Canada awaiting investment. Quite frankly, this was all news to me. I had no idea that Chinese capital found its way to Canada at all. Is that an extensive move?

Dr. Kavic: It comes primarily from Hong Kong and southeast Asia and is heavily oriented towards British Columbia real estate.

Senator Laird: You do make mention, just prior to that, of capital coming in from Hong Kong, Australia and New Zealand and then you go on to mention Chinese capital. I got the impression that this must be Chinese capital emanating from mainland China.

Dr. Kavic: I never meant that, no. It is strictly Hong Kong and southeast Asia which provides the Chinese capital. One must appreciate, of course, the family web structure of Chinese business throughout southeast Asia and that some of these individuals are immigrating and bringing their money with them. Others who are immigrating and running down their holdings in Hong Kong

and southeast Asia are gradually bringing their money out. Yet others are proceeding to invest where the offerings are good. In more recent months there has been a counterflow of this capital back to Hong Kong as the aftermath of the disturbances there.

Senator Laird: It is not in the same vein as the American investments in Canada, where it comes in with the idea of staying?

Dr. Kavic: It's a definitely speculative aspect for Chinese capital and they are not interested in long-term investments, but want a quick return. They have an obsession with apartment buildings, high-priced homes and increasingly, recreational land. They have shown no interest in long-term investment of the type we associate with other sources.

Senator Laird: You keep stressing the proposition that we cannot have this imbalance of trade continue and that somehow or other we have got to import more, because we certainly do not want to cut down our exports.

Dr. Kavic: From certain countries, right.

Senator Laird: We have to think in practical terms, being members of Parliament. In this connection in what particular products would you suggest we could increase our import to Canada?

Dr. Kavic: As far as southeast Asia is concerned, we are going to have to increase imports in the labour intensive field, of which textiles is an automatic core item.

Senator Laird: Let us deal with textiles first. To be very practical, how can we permit the importation of more textiles without running our own textile business in Canada?

Dr. Kavic: I think it is a question of ultimate economic rationalization which I appreciate is a far-reaching and complicated one.

Senator Laird: The trouble is that we have these philosophical concepts thrown at us, but we have to be practical. Some of us, for example, are on the National Finance Committee and we realize that money has to be raised. Have you any products, other than the labour intensive products, by which you think we could increase our exports?

Dr. Kavic: A labour intensive is the prime product, as far as southeast Asian economies are concerned, but I think Japan is going to be gradually forced out of the labour intensive field of textiles, footwear and such things as that. Korea, Taiwan, and Southeast Asian countries will probably cut the Japanese out in these sectors, and indeed Japan is proceeding to export these industries to these countries to take advantage of lower labour costs.

Senator Laird: That will change the present nature of the particular trade pattern with Japan?

Dr. Kavic: Yes, I think the trade pattern with Japan is well under way towards what we call consumer dura-

bles-in other words appliances, automobiles and things of that nature—but the proportion of non-durable consumer goods—such as footwear, textiles and this sort of thing, which have been traditionally a strong feature of Japanese export to this country—are in rather rapid decline. This of course is opening up certain advantages to the southeast Asian states, which means there will be a redistribution among the importing countries which will not necessarily involve a severe cut into our domestic capacity. I recognize that at some point, of course, there are just too many countries in this field of activity. The recent troubles we have had with Mexico are suggestive that ultimately there is a limit to what the Canadian economy can absorb; and if countries are going to take an extremely resentful attitude towards us, obviously there is nothing we can do about it but accept the consequences.

Senator Laird: Thank you, Mr. Chairman. I have absorbed enough time.

The Chairman: Thank you, Senator Laird.

Senator Belisle: It seems to me desirable to inform the committee that Dr. Kavic obtained his Ph. D. in Australia. He must have travelled considerably. Seeing that he mentioned mines and miners, would he venture an opinion on what will happen to the Canadian uranium market, from what has been found in Australia, the rich deposits of uranium, much richer than we have in Canada; and knowing that the world market has become saturated, would you forecast an opinion as to what will happen?

Dr. Kavic: On the basis of my investigation, I would think that the best leverage that Canada has in the Japanese uranium market is Japan's deliberate policy of diversifying its external sources of supply.

Senator Belisle: Would you say we could find other markets?

Dr. Kavic: Japan is looking all over the place. South Africa may well be Canada's most serious competitor at this stage—although Australia is certainly a dark horse which undoubtedly is going to come on strong.

The Chairman: I do not wish to rebut the witness's answer, Senator Belisle, but within my own experience the Japanese diversification in minerals in Australia is most extensive.

Senator Belisle: Thank you.

Senator Carter: I would come back to the question Senator Laird raised about balance of trade, which is very much in Canada's favour. In Dr. Kavic's article, he intimated that this problem was not going to go away, that it is going to stay there and no matter how long we postpone coming to grips with it, we will have to do it some day. I would like him to expand on that. Senator Laird has pointed out, whenever we come to grips with it, we are going to ruin our textile industry in Canada. If we extend this to other goods, like electrical goods and rubber goods, from Japan, these industries in Canada

will disappear. Does Dr. Kavic have something to say on that, that we should go ahead with that or should we phase out these industries in Canada?

Dr. Kavic: No, what I am suggesting is that I feel that there are going to be eventually strong pressures in this direction, that we have to perceive the very sensitive nature of trade. We hear a great deal about multilateralism in trade today. We hear an increasing amount about bilateralism as well. The Japanese are constantly reminding us of the imbalance in their trading account with us. The Chinese are undoubtedly going to start reminding us of the severe imbalance in our trading relationships with them. Australia has \$100 million a year trade imbalance with Canada. And we ourselves are extremely sensitive to our imbalance with the United States and we are extremely sensitive to senatorial suggestions down there that the automobile agreement should be re-negotiated, etcetera.

So I think we must appreciate that multilateralism is fine so long as the economies remain buoyant. We have had a particularly good run, I think, in the 1950s and 1960s. Whether this is going to continue through the 1970s and into the 1980s is hard to say.

I would envisage the need to contemplate that major problems are going to develop, which are going to have somewhat of a domino effect. For example, the United States has a trade imbalance with Japan, and Americans are getting increasingly sticky on that basis. If the Americans proceed to squeeze the Japanese, the Japanese can be expected, even while perhaps making some sort of compromise with the United States, to start squeezing the countries with which it has an imbalance. That means that these countries will probably have to re-assess the imbalances that they have with the United States.

If Australia and Canada proceed to become heavily dependent upon Japanese markets for their raw materials, then the Japanese have extremely strong leverage for arguing that they, rather than the United States, should enjoy more of the fruits of their import markets as far as manufacture are concerned.

So ultimately, if merely one of the parties among the developed nations in the Pacific—Japan, Australia, New Zealand, Canada and the United States—proceed to start getting tough with somebody with which it has a trade imbalance, this will have a domino type of effect.

Senator Carter: I am still not quite clear. How do we deal with this in Canada? Do we accept the inevitable, that these enterprises will have to go, and do we proceed now to phase them out, in a way in which the displaced workers will be employed somewhere else? Or will we just carry on, hoping that somehow or other we can keep them alive, that we can give them a portion of the domestic market and subsidize it. I would like to get your mind on how some of these things are going to develop.

Dr. Kavic: I do not think Canadian resources are such that we can proceed to contemplate a large scale subsidization, over a long term, of every particular sector which proceeds to come under peril. I think there is need for establishment of a long-term policy with regard to what

does constitute the national interest from the standpoint of an economic base, and to proceed to take measures either to develop or to restrict to a certain point those sectors of the economy which are considered to be minimally necessary.

The Chairman: If I might assist the witness in endeavouring to answer your question, Senator Carter, I think it is a very difficult question, because it requires, perhaps, a political opinion, in reply, from the witness. What I think the witness has given to this meeting are the facts of the situation, and he has indicated that in his opinion this gap obviously is there and his opinion is that it will be a closing one rather than an opening one.

Senator Carter: I appreciate that, but we have to try to work out some recommendation on some of these things. I would like to get some guidance on it. Staying with this question, supposing that we say that our textiles and other goods are expendable and that they disappear, and then we buy from abroad, and you are saying we pay for it. It is a bit hypocritical that we send out aid to these Asian countries, and then refuse to buy their products. If you take the case of textiles, the Japanese have textiles to sell and Taiwan has textiles to sell, and all those developing countries have textiles to sell. What should be our policy with respect to each one of them? Should we bow to the pressure from Japan, or should we stick on to what we are doing and continue Taiwan as a trader?

Dr. Kavic: We are probably going to have to pursue this partly through multilateral channels, in other words, the developed countries proceeding to show greater sensitivity to the problems of the under developed countries. in an attempt to rationalize on a multilateral basis the marketing of the vital exports from the developing countries. And thus there is, for example, the possibility of conceding to less developed countries preferred access for their exports to the markets of developing economies, but this necessarily is a multi-lateral problem which Canada can certainly not resolve on a bilateral basis. Therefore, if we take any unilateral initiative on this score, we are going to be submerged. There is no question about it. Our economy is just not large enough to cope with more than a trickle of the potential flood of goods which could come forth from the developing economies of the world. And, therefore, even if we did, let us say, completely sacrifice our footwear and our textiles and take the lumps, which would be quite severe domestically in the short-term, this would be no more than a finger in a collapsing dyke.

Canada could not possibly resolve this problem, or contemplate resolving it, on its own standards. And I do not think it should. As a major international trading nation, Canada is much more sensitive than the United States. Canadians are much more sensitive than Americans, I think, and are more sensitive than many peoples in the world of the necessity of give-and-take in international economics. We have to give a great deal in order to benefit. We are a major exporter and we are also a major importer, and, therefore, we can appreciate the sensitivities and problems of some of the developing economies more than, say, the American Senate can. For this reason we should utilize this sensitivity in pushing

for serious consideration these measures on a multi-lateral basis.

Senator Carter: You emphasize in your paper the neglect on the part of the private sector in Canada, particularly of manufacturers, to exploit the potential around the Pacific. As you point out, we have set up an export development corporation; we do have trade commissioners; we have the White Paper which was recently published and which pinpointed this problem; what more do you see that we should be doing in this area?

Dr. Kavic: The Government has been doing quite well: historically it has shown an interest; since the second world war it has expanded its trade services; the Department of Trade and Commerce is a very efficiently-adm.nistered and well-run agency. But ultimately, of course, the average individual trade commissioner just does not have the promotional capabilities or knowledge with which to proceed to deal with the marketing problems of these diverse manufactures which Canadian industry does have available.

To travel in southeast Asia is a remarkable experience from the standpoint of noticing the nationality of the businessmen one encounters there. You have to really look to find private Canadian businessmen. But you will see Australians flooding southeast Asia and east Asia. Australian companies are spending large sums of money in order to provide language training to rising executives whom they send out to the fields and then bring back to their head offices. They have an extremely energetic approach. Perhaps necessarily so, because Australia is, of course, much more involved in Asia than is Canada. It has had some shocks with regard to the European and Mid East scenes. And there is certainly a more positive regional orientation on the part of Australia, which one would not expect would be as true of Canada with its several regional frontiers.

It is my opinion, however, that if Canadian businessmen proceeded to take even a partial example from the Australians in this regard, the benefits would be rewarding, because a lot of Asian businessmen are extremely sensitive. They much prefer to deal with the man from whom they are going to be buying rather than dealing through an intermediary such as a government trade representative.

This holds true in any domestic economy and it certainly holds true in Asia, where most Canadian businesses are not regarded as being interested. If you are not interested; if you just show up occasionally one day with a brochure; who cares? You have to develop these areas, and the only way you can develop them is to show that you are willing to train people and to spend the money for the purpose of competing with other very aggressive individuals.

Senator Carter: Is the money spent on training government money?

Dr. Kavic: No. It is spent by the companies involved.

Senator Carter: That is the whole point. The point of my question, which was perhaps not too clear, was that in spite of what the Government has done—and you said

that the Government has done very well—it has not had any results. The results have been very poor. How can we be more effective?

Dr. Kavic: Well, the one obvious measure would be for the Canadian Government to offer some sort of better incentives through tax concessions or something in that order.

Senator Carter: To promote training?

Dr. Kavic: For the purpose of stimulating the private Canadian manufacturing sector to go forth and to sell.

Senator Carter: Thank you.

Senator Nichol: Dr. Kavic, I have two questions that are somewhat related. As you will gather from what I have to say, I am from British Columbia.

I believe Senator Laird put his finger on the basic dilemma we are dealing with here. I understand that this year 37 per cent of the automobiles sold in Vancouver are Japanese. This percentage is rising very rapidly. We have generalized that all the manufacturing industries are in eastern Canada, essentially; all of the ones that compete with Japanese products are located in eastern Canada. All of the export products are generated in western Canada, however. Therefore, in the classic western argument, the western consumer is paying the price for supporting these eastern Canadian protected industries.

As the Government and as the Canadian people turn towards the Orient and trade begins to grow at the rate you are suggesting it will, it is my thought that that is going to place a considerable strain on the economic fabric of confederation.

 $\ensuremath{\mathrm{My}}$ first question is do you think that is a correct analysis?

Dr. Kavic: Yes, I do. There is no doubt that western Canada has and will continue to have an extremely hefty trade surplus on its trading account with the Pacific rim, but that central Canada, which presently has a very adverse trading account, will undoubtedly continue to have it for reasons that the market for manufactures in southeast Asia is highly competitive. In Japan it is highly restrictive, and in Australia it will be limited ultimately by the size of the market.

Senator Nichol: That brings me to my second question, which is connected with the first. Talking about the aggressive selling of Canadian products in and around the Orient, or in the Pacific, my impression is that the raw materials industries, pulp, timber, mining products and so on, have been very aggressively sold by the Canadian manufacturers over a long period of time. You mentioned lumber sales in Australia, for example. The whole thing has been very outward-looking. It is an export trade. The lumber mills of British Columbia—I think I am correct—could supply the annual needs of the Canadian market with three weeks' cut, which puts the thing in perspective. The mills are cutting a million board feet of timber a day. That timber has to go somewhere and that is where it goes.

I suspect, and I want to ask you if you think this is true, that one of the reasons the manufacturing companies of eastern Canada have been so lacking in aggression in selling into these markets is that they enjoy a tariff-protected market which encourages people, by producing artificial costs, to stay within their own bailiwick and not bother going off and fiddling around in these other markets. As long as the tariff protects them and to some extent guarantees them an annual profit and an annual sales volume which is not going to be attacked by fore.gn products, they will never find any need and go and attack them in these foreign markets.

I would like to ask you what you think about that. Here I am asking two questions about the tariff policy which are connected with each other. What I am saying is this; do you think the tariff policy of Canada as it has been tradit.onally protecting central Ontario and central Canadian industries—do you think that has a bearing on the fact that they have been so lacking in aggressiveness in selling even in western Canada, much less going outside.

Dr. Kavic: I think this is very definitely the case. The only notable examples down to 1939 of Canadian manufacturers marketing in the Pacific involved bicycles and farm implements which were very successfully marketed from the turn of the century onwards.

Senator Nichol: That was Massey-Ferguson?

Dr. Kavic: Massey-Ferguson and Cockshaft Plough Company. I have not been able to identify the bicycle company that did extremely well.

Senator Nichol: I thought the Japanese bicycles were the cheapest and the best bycycles in the world. That is what I was brought up to believe in Vancouver.

Dr. Kavic: Not apparently at the turn of the century in Australasia.

Senator Nichol: Well, I was not brought up at the turn of the century.

Dr. Kavic: I think this is an example and an early demonstration of the rewards that did accrue to easternbased manufacturers through an early exploitation of a far-off market at a time when communications were much more primitive than they are now. But it seems that with the passage of time-although certainly the farm implement business has continued to pay a lot of attention to this area through the establishment of local production facilities—that other Canadian manufacturers, as the Canadian manufacturing sector became more diversified, became extremely tradition oriented and their increasing capacities were satisfied either to the south or across the North Atlantic, and satisfied to the degree of meeting their minimal expectations with the result that the Far East remained the Far East, and even the Far West remained ver much the Far West. I think the Canadian manufacturing sector is and has been traditionally guilty of taking refuge behind high-tariff barriers using central Canada's population and its political leverage for the purpose of insuring a very cozy protected market.

Senator Nichol: Basically through controlling this institution in which we sit, and by that I do not mean the Senate, but the Government of Canada.

Dr. Kavic: I agree with you. And the westerner who has constantly felt exposed to international competition has to buy from a highly protected eastern market and he has to sell on a highly competitive international market. He has had to go out or die but he has been able to survive quite well.

The Chairman: Dr. Kavic, I would like to add a couple of supplementary comments to Senator Nichol's questions. Number one is oversimplified, perhaps, but it is to challenge the fact that western Canada is the sole primary producer in Canada. I think the pulp producers of Quebec and New Brunswick might take some issue with that.

Senator Nichol: Selling into the Orient?

The Chairman: The second point I would like to ask you about, Dr. Kavic, and is further related to Senator Nichol's question is this; what about the real exception to this rule, the success of Ford of Canada in Australia?

Dr. Kavic: Well, Ford of Canada in Australia was established in 1925, which was subsequently followed by Malaysia in 1926 and New Zealand in 1936. Ford got in there right at the grass roots and General Motors of course was a little behind, although they have since surpassed Ford with their Australian Holden operation.

The Chairman: But I was speaking of Ford of Canada per se in Australia.

Dr. Kavic: Well, Ford of Canada established a subsidiary in Australia, and the result was that this subsidiary provided an extremely lucrative marketing agency for Canadian automobiles, and the prominence of Canadian automobiles in our Pacific trade prior to the Second World War was primarily due to the existence of Ford facilities in Australia, New Zealand and Singapore.

Senator Laird: Mr. Chairman, this has been followed very effectively by the Canadian holders of franchises on Colonel Sanders fried chicken.

Senator Nichol: Mr. Chairman, if I come back on the point you made a few moments ago about exports of Canadian raw material products to the Pacific countries and imports from them, I did not mean to be critical of your beloved part of the country by any means.

Senator Sullivan: He saved himself an awful lot by that remark.

Mr. Chairman, I would like to hear Dr. Kavic's viewpoint or opinion on this. You know Japan does not have an embassy in Peking. Why?

Dr. Kavic: I think it is an outgrowth of the Second World War and the fact that while mainland China was proceeding to shift from one government to another, Japan was effectively under American military occupation, and subsequent to the conclusion of the Korean war the Japanese have been extremely inhibited by American

attitudes for trade and strategic reasons. Japan has also concurrently developed a heavy economic stake in Taiwan, and Japan has, despite the circumstances, been able to develop approximately a \$200 million export market in mainland China—which, of course, is not nearly what the Japanese envisage they could do. But the reason for this is the fact that they have managed to make significant sales to mainland China and they have concurrently developed a very significant economic stake, trade and investment-wise, in Formosa and they continue to be extremely inhibited by American attitudes, in view of the fact that they sell the United States \$4 billion worth of goods each year and enjoy a very hefty trade surplus. It is quite clear that in view of American attitudes with regard to trade with Red China that the Japanese are going to have to be extremely careful about not endangering their already sensitive position on the American domestic market by trying to jump after the golden goose too quickly.

The Chairman: Could we have, for the record, Senator Sullivan, just what the imbalance of trade is between the United States and Japan? You say it is \$4 billion one way. What is it the other way?

Dr. Kavic: Last year it was \$3½ billion.

Senator Carter: Before we leave this subject, coming back to Ford of Canada, I have this brief supplementary. Can Ford in Australia benefit indirectly by the auto pact between Canada and the United States?

Dr. Kavic: No, there is no reverse flow of components. In fact, Ford of New Zealand is now being heavily supplied from Ford of Australia. And in the New Zealand trade the multinational corporation is proceeding to reorganize its supply procedures. Instead of Canadian suppliers providing, say, the New Zealand market, increasingly it is the Australian based companies which are proceeding to supply New Zealand. This could well become true elsewhere in Asia as well, because Australia, for a number of reasons, is a more useful vehicle for the purposes of servicing Far Eastern trade.

Senator Pearson: Mr. Chairman, I want to speak now on immigration. Due to the tremendous development taking place in British Columbia, with the Japanese investment in all sorts of trades such as forestry and mining, they have taken a tremendous amount of raw materials. At the same time there is a tremendous population explosion in Japan and all the eastern Asian area. Can we continue to prevent and stay in our cozy little position of keeping the Asiatics out of Canada or the Pacific area, because of trade they will want to go a little faster and get more trade than they are getting. Do you think we could supply that without allowing the Japanese or Chinese to come into this country?

Dr. Kavic: I think the Chandrasekhar view that "empty" lands have an obligation towards crowded lands no longer has any particular currency. It might be useful for the odd demagogue, and no doubt will continue to be used in this respect, but I think as far as informed opinion is concerned and as far as governments are aware, there is no such thing as a safety valve for

surplus population any more, that if one were to try to accommodate the annual increase in Japan, pretty soon we would be saturated.

Senator Pearson: Supposing they have this tremendous interests in Sherritt-Gordon; they also have interests in Noranda.

Dr. Kavic: Yes.

Senator Pearson: Supposing they are not getting as much material from these two mines as they want and they demand their technicians be sent in there to help out. Eventually they will probably want more of their nationals in there and an increase in the labour force. Do you not think they will gradually creep in this way to satisfy the needs they have in their own homeland?

Dr. Kavic: I think it is possible that the Japanese investor, to the degree that there appears to be local technical deficiencies, will insist upon his personnel being inserted certainly on a short term basis. The Skookumchuk project did involve some of these personnel, and some of these mining ventures involve some Japanese personnel. I think that the Japanese are extremely sensitive to any suggestion that they are in a sense going to adopt a rather aggressive high key posture; certainly their activities to date indicate that their preference is to remain in very much of a low key posture in order not to stimulate adverse local reaction, although one can certainly envisage from time to time certain key personnel being inserted for a specific reason, which might not always please the local union, and might occasionally be a rather sensitive matter to local managerial personnel. But, this is part of the development of modern business, which is increasingly international, and the fact that the Japanese case is not going to be all that multinational, would seem to make it disposed to be a little more sensitive.

Senator Nichol: I should like to say that I agree with Dr. Kavic. My experience in British Columbia with a very large number of Japanese technicians, financial people, and mining people, who have come there during the last ten years, has shown that they have been meticulously careful and polite in their dealings with Canadian industry so as not to ever present an aggressive posture in British Columbia. There is no sign of it whatever. As a matter of fact, they are marvellous. They are first-rate corporate citizens. I hope that we are as nice to them.

Dr. Kavic: Yes, and from the standpoint of our immigration pressures, the Japanese have traditionally been extremely sensitive about their migrants not being accepted, and somehow impairing the image of the homeland. This applies today, and there is an extremely rigorous selection of Japanese migrants before they are allowed to proceed abroad. I see no possibility of this changing.

Senator Sullivan: Dr. Kavic, you might be interested in this example. I am on the board of trustees of the Connaught Laboratories. Japan wanted the Connaught Laboratories to go to Tokyo and set up a laboratory there, and to give them the know-how and the patents it

has on certain drugs, and so on and so forth. They would do everything provided we would give them the knowhow. They would control the whole industry in Japan. Dr. Fergusson and Mr. Brant would not go for it. This seems to indicate that they want everything for themselves, and don't think they don't.

Dr. Kavic: I agree with you in so far as their home industries are concerned. This is reflected in their investment policies and trade policies. Japan is very interested in maintaining control of the golden key, but in so far as their external posture is concerned the Japanese are sufficiently aware of sensitivities as to move extremely cautiously.

Senator White: Mr. Chairman, I should like to ask Dr. Kavic if he would care to comment on the armistice negotiations that have been going on for over 15 years in Korea.

Dr. Kavic, what do you see as the ultimate outcome? Do you see any hope of unification there?

Dr. Kavic: Of the Korean situation? No.

Senator White: Will it go on forever?

Dr. Kavic: In fact, the Korean situation seems to be somewhat removed from both Russian and Chinese control. I think you are going to have a continuation of the rather peculiar indigenous attitude of the north towards a resolution of its problems; what with the degree to which South Korea is forging ahead economically and becoming more closely involved with the Western countries such as Canada and Japan. Political and social barriers are adding to already existing political and historical problems, so I do not envisage any serious consideration being given to unification in the foreseeable future. I think this is going to be more or less a de facto separation, along the lines of India-Pakistan, lacking the legality of that particular development. I do not think we can draw any analogy between this division and the division of Vietnam nor, for that matter, the division of Germany, although West Germans are more interested in the good life than they are in reunification. I think this is also probably true of East Germany; they are more interested in the vested interests which they do possess than in unification, with the problems of adjustment in a larger Germany.

In Korea we have a little of the Vietnamese situation, too much blood under the bridge. There is also an increasing development of the German situation of vested interest, two styles of life, et cetera, gradually reinforcing the division which does exist and making it in effect as close to a permanent one as one can contemplate and with the advantages to various other powers in keeping it that way.

I cannot see China, for example, or Russia being in favour of any reunification in which the south would have the initial economic power, technical advantages, et cetera, and in close contact with Japan and the United States. I think this situation would, from the Russian and Chinese standpoint in the foreseeable future, be highly adverse to the maintenance of their interests in the peninsula.

Senator Pearson: Do they not regard it as a buffer state, much as Czechoslovakia?

Dr. Kavic: Yes, I think North Korea is very much a buffer state, partly in analogy to the Vietnamese situation and partly in analogy to the German situation. The longer it lasts the more difficult it is going to be to actually rectify the situation and the more reluctant any of the major parties are going to be to rectify it.

South Korea cannot really gain through reunification. North Korea could gain economically, but South Korea certainly could not in my opinion. Also, from the standpoint of strategic and political power benefits, et cetera, I cannot see any of the other major parties bieng at all positive in this direction.

Senator Carter: At some time in the future, Hong Kong in a few years—what is it?

Dr. Kavic: The year 1997.

Senator Carter: It is going to revert to China.

Dr. Kavic: It is just the New Territories.

Senator Carter: Oh, not the island itself?

Senator Hastings: It is just the Kowloon side.

Dr. Kavic: But, of course, the island's viability would decrease without the New Territories.

Senator Carter: They could cut the island off whenever they wished. Will that have much impact do you think?

Dr. Kavic: Well, it is a question of what is going to happen in 1997. Obviously Peking has been reminded constantly of its inconsistency with regard to this imperialistic treaty and territory. However, for practical purposes the Chinese have shown that they are more interested in the economic benefits of Hong King, which is their major vehicle for trade with the outside world. They make a tremendous amount of money through sale of water and agricultural commodities to Hong Kong and this largely covers their wheat purchases in volume. In a sense they have shown an ability to differentiate between practical interest and ideological attractions. Even during its so-called cultural revolution phase we did, of course. have a little of its spill-over into Hong Kong, but the Chinese government did not push the issue and the British authorities were able to cool the situation, quite unlike the situation in Macao, which does suggest that even during the heat of this particular upheaval the governing powers that be in Peking continued to give high priority to the maintenance of a basically independent Hong Kong, at least independent of its control. It is possible that in 1997 they might somehow agree to just let the matter run on, although I imagine this would depend a lot upon the situation prevailing at that time.

Senator Carter: In future Japan is going to take greater responsibility for the security of that area.

Dr. Kavic: Greater interest. I would not say responsibility.

Senator Carter: You do not think they are going to put money into defence? Will they not beef up their defence budget?

Dr. Kavic: The Japanese have recently sanctioned about a \$5 billion defence budget, which will give them a navy in excess of 200 ships, a tank force of 1,000 plus front line tanks, an air force of 1,000 front line aircraft. It is obvious that the Japanese self-defence forces are becoming increasingly efficient and well-equipped, but it is quite clear that the types of aeroplanes involved, the types of ships involved etc. will proceed with restriction to very local defence, and do not provide for any sort of expeditionary force. I cannot envisage Japan moving unilaterally in any respect beyond its borders. At the most, Japan would have a very serious interest in the disposition of South Korea.

Senator Carter: As Japan sinks more and more money into defence, she will be like the rest of us and have less and less for servics and for expansion. Is their economy so strong now that this will not have very much impact on it?

Dr. Kavic: Currently she has been spending less than one per cent of her GNP on defence, and the very expansive nature of the Japanese economy suggests that this five-year defence plan will be a virtual drop in the bucket, that it will not really entail any sort of pressure upon the Japanese economy.

Senator Carter: She is also taking responsibility for development of these undeveloped areas, putting money into these undeveloped countries, and she is in a strategic position to do this. As she has to expand her economy, being in that strategic position, will it be possible for other countries, like Canada, to compete in there?

Dr. Kavic: The Japanese attitude, of course, towards trade and aid is a very closely linked one. They use aid as a vehicle for trade. This is what makes the Japanese trade aid policies highly sensitive in the eyes of other governments, the fact that the Japanese are using the more idealistic aspect as a long term investment, with every intention to tie the products of their aid to the Japanese economy; in other words, to help open up mines

etc. and have long term contracts, tying these to Japanese industry. The possibility, therefore, of Japanese trade aid policies being tantamount to a co-prosperity sphere, is I think a very real one.

Senator Carter: This is what I was getting at.

Dr. Kavic: This is what is developing.

The Chairman: Senator Carter, I do not wish to cut you off...

Senator Carter: I was wondering if we could arrange to have Dr. Kavic back again, because we have only scratched the surface.

The Chairman: Senator Carter, in my concluding remarks, I was going to say that Dr. Kavic's testimony here today, both in his presentation and in his answers to the questions, has been brilliant. I think this committee can benefit greatly from a return visit, and perhaps Dr. Kavic could fit this into his busy schedule as we get a little further down the road in our hearings. We are not yet sure the course we will be taking. In thanking you, I do wish to emphasize what I consider to be the feeling of this committee, that we are most appreciative of what you have given us here this afternoon. It has been a first-rate start for our hearings. To try and present all the points of view is impossible, as Senator Carter points out. Therefore, we are just scratching the surface. In thanking you, Dr. Kavic, I extend an invitation to you to come back another time.

I would like to announce to the members of the committee that next Wednesday, November 4, the Minister of Industry, Trade and Commerce, the Honourable Jean-Luc Pepin, will be our witness. The meeting will commence at 2 o'clock and terminate at 3.15. This will be a very special meeting, and I would like your full attendance. The Honourable Robert William Bonner, Q.C., former Attorney General and Minister of Commercial Transport of British Columbia, and presently Vice-President of MacMillan Bloedel Company, will be here on Tuesday, November 10 at 4 o'clock in the afternoon. Thank you very much for your attendance today.

The committee adjourned.











Third Session—Twenty-eighth Parliament
1970

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 2



WEDNESDAY, NOVEMBER 4, 1970

Respecting THE PACIFIC AREA

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman
and

The Honourable Senators:

Macnaughton Belisle McElman Cameron McLean Carter Nichol Choquette Connolly (Ottawa West) O'Leary Pearson Croll Eudes Quart Fergusson Rattenbury Gouin Robichaud Sparrow Haig Sullivan Hastings Laird White Yuzyk—(30) Lang

Ex Officio Members: Flynn and Martin (Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,
The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific",

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination

and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Wednesday, October 28, 1970:

With leave of the Senate, The Honourable Senator McDonald moved, seconded by the Honourable Senator Langlois:

That Rule 76(4) be suspended in relation to the Standing Senate Committee on Foreign Affairs on Wednesday next, 4th November, 1970, and that the Committee have power to sit while the Senate is sitting on that day.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative.

ROBERT FORTIER, Clerk of the Senate.

Minutes of Proceedings

Wednesday, November 4, 1970 (3)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met this day at 2.00 p.m.

Present: The Honourable Senators: Aird (Chairman), Bélisle, Cameron, Carter, Eudes, Fergusson, Grosart, Haig, Hastings, Laird, Macnaughton, McElman, Pearson, Sparrow and Yuzyk. (15)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

The following witnesses were heard:

Department of Industry, Trade and Commerce:

Mr. Jean-Luc Pepin, C.P., M.P., Minister; Mr. F. R. Petrie, Director of the Pacific, Asia and Africa Branch; Mr. T. M. Burns, Assistant Deputy Minister for External Services;

Mr. V. J. Macklin, General Director, Office of Economics.

Export Development Corporation:

Mr. F. M. Carlton, Loan Director, Asia Area.

The following witness was also present but was not heard:

Department of Industry, Trade and Commerce:

Mr. W. J. O'Connor, Acting Chief, Grains Program Office.

At 4.10 p.m. the Committee adjourned to Tuesday, November 10, 1970 at 4.00 p.m.

ATTEST:

Denis Bouffard for E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, November 4, 1970

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 2 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, I welcome Senator McNamara to our meeting this afternoon. As we came through the door the minister indicated that he thought it would be most interesting to have Senator McNamara on the other side of the table. I am sure we are all honoured by his presence amongst us.

Our meeting this afternoon is the second in our inquiry into Canadian relations with the Pacific region. Last week we obtained a broad overview of the topic, and we are now moving into an intensive examination of economic relations.

We are very fortunate that the honourable Jean-Luc Pepin has been able to join us today for a discussion of this central aspect of our study. I know that Canada's economic ties with Pacific nations are a growing preoccupation of Mr. Pepin's department, and I also know that he has a strong personal interest in this region. Last spring he toured six countries of the region—Japan, Thailand, Malaysia, Singapore, Australia, and New Zealand—and at that time held full discussions with political leaders and officials in each country. Since that time the Government's foreign policy paper has made it very clear that Canada will be giving increasing priority to the Pacific region, particularly in the fields of trade, investment and development assistance. This committee is very interested in each of those areas.

I might mention that each member of the committee has received a copy of the most recent issue of *Foreign Trade*, published by the Department of Industry, Trade and Commerce, which focuses on the Far East.

Mr. Pepin is accompanied today by his Assistant Deputy Minister for External Services, Mr. T. M. Burns. I understand also that Mr. F. R. Petrie, the Director of the Pacific, Asia and Africa Branch of the Department is present, and perhaps there are some others whom the minister will introduce.

On behalf of the committee, Mr. Minister, I am very pleased to welcome you. My understanding is that you wish to make a preliminary address after which, following our usual custom, we will ask you questions. I have asked Senator Cameron if he will be good enough to lead the questioning today. I understand that we have to complete this meeting in an hour and fifteen minutes to suit your convenience. We shall do our best to divide the questions in a proper and fair fashion.

The Honourable Jean-Luc Pepin, Minister of Industry, Trade and Commerce: Mr. Chairman, as the young lady said, my time is your time! I will stay for as long as you feel there is a justification for my presence.

The Chairman: Thank you very much.

Hon. Mr. Pepin: I am very much impressed by the quality of the audience. Many of you are experts in different areas of international affairs—some in cultural affairs, some in investments, some in wheat trade, and others in mining. Knowing that, I came here fully protected. Besides Mr. Burns I have with me Mr. Petrie who has also been introduced, and Mr. Macklin, the General Director of the Office of Economics. Also present is Mr. F. M. Carlton, the Loan Director-Asian Area, of the Export Development Corporation.

The chairman said that you have already received quite a lot of documentation, and he referred to the Foreign Affairs review which is of course a basic document for your study. He referred to the magazine "Foreign Trade", published by my department, but there are other issues than the one he mentioned which could be useful. He mentioned the issue of October 24 entitled "The Far East—the Dynamic New West", but I think you should also read the issue of September 12, 1970, which contains an article entitled "Canada Expands Trade with Southeast Asia". Which covers another section of the Pacific area. I may be referring also to the issue of January 31, 1970, which has to do with business possibilities developed through international financing organizations.

If I may be presumptuous I should like to refer you to speeches made on the Pacific by the Prime Minister, by Mr. Sharp, and by myself. The chairman has been kind enough to refer to one that I made in Vancouver on May 5, 1969. Andre Siegfried used to say that you should not hesitate to quote yourself. "This is what all of us do most of the time anyway," he added.

Another one from which I shall quote was given on October 23, 1970. It deals with Canadian trade in Latin America. In the first pages I talk about the general recent trade picture in Canada, and you might refer to that for a global survey. This coming Friday, at the University of Windsor, I will speak on "Canada's Trade with the Developing Countries". I will try to cover what is being done by Canada at this time to develop trade with that group of countries. Many countries of the Pacific are "developing," as you know.

Copies are available at no cost at all from my office!

Honourable senators, you are fully acquainted with the importance of the Pacific area for Canadian trade. This is the third largest market for us, following the United

States and Western Europe including the United Kingdom. In 1969 the two-way trade with the Pacific region—I presume "Pacific region" has already been defined, Mr. Chairman.

The Chairman: Yes, it has been already defined.

Hon. Mr. Pepin: Thank you. In 1969 the two-way trade with the Pacific region amounted to \$2 billion; exports from Canada amounted to \$1.1 billion, which represented 8 per cent of our total exports in 1968, which at that time amounted to \$14.1 billion.

The Canadian share of the Pacific rim market, which totals \$32 billion, is about 4 per cent, which at first look seems low but my experts might put that figure in more proper perspective.

Our exports in the Pacific in 1969, as stated, amounted to \$1.1 billion whereas in 1965 they amounted to \$671 million. So, in less than four years the amount has almost doubled. A growing market indeed!

If you look at the figures for the first seven months of 1970 you will see that the growth of exports to the Pacific has been 23 per cent, a very encouraging figure.

Perhaps I can make some rapid remarks now upon the character of the area. The first observation is the one I have just made, that is, that the Pacific is a fast growing area from a trade point of view.

The second observation is that the Pacific Rim is not a homogeneous area in that you have there highly "developed countries like Japan, Australia, and New Zealand, and the rest of then classified as "developing" countries. But, you are as aware as I am that this classification of countries into "developed" and "developing" is a rather debatable one.

To give you an example: Japan is a highly industrialized country, and yet it benefits from some of the advantages of a developing country when it comes to the cost of labour.

Some people are quite willing to say that Canada itself cannot be classified as a fully developed country—that is, one where all sectors are of the economy, the primary, the secondary, and manufacturing sectors, are in relative balance. They usually add, and rightly that some parts of Canada think of "regional disparaties" as belonging more to the "developing" type of country than to the "developed. And this is said *en passant*.

In my Vancouver speech I indicated a few other characteristics of the Pacific area, and perhaps I should repeat them here. The first point I made was that:

Industrialization is increasing everywhere. New Zealand is reducing its dependence upon agriculture. Singapore is seeking to become more than just an entrepôt, and offers extraordinary incentives to industry. Similar arrangements exist in Malaysia. Australia requires a larger population and more industry in order to reduce its dependence upon agriculture and primary products.

The second observation was on the development of infrastructures. I said:

Seaports and airports are being improved; hydroelectric power is being expanded; the purchase of nuclear power reactors is being considered....

by Australia in particular.

Tourist facilities are being improved.

Those of you who were in Singapore recently know that there are 30 or 40 hotels going up...

Senator Cameron: There are 28.

Hon. Mr. Pepin: I was exaggerating. Ministers of Industry, Trade and Commerce always exaggerate a little!

The third observation I made is still valid. I said:

There is a great deal of local investment, and for the most part there is a considerable supply of capital. I was told, for example, at the time I was in Malaysia, by the President of the Malaysian Bank, that the need was not for money essentially (that is a rather different statement, and it was the first time I heard it) but for more expertise, for more technical and more managerial experience. It was often suggested that there should be more joint ventures with Canadians.

I shall come back to that last point later on.

Another observation I made was that standards of living were improving. I said:

Needs are developing for consumer goods. Although we may sometimes not agree with their economic policies, government experience and competence in economic planning is increasing. I was impressed with the "operations room" in Kuala Lumpur, the centre for economic planning in Malaysia.

So indeed, most of the Pacific Rim is a developing area, but with rather particular characteristics. So much for the character of the Pacific area.

The rest of my remarks today have to do with the different possible approaches or ways by which we are tryin to improve our trade position in the Pacific Rim. I am going to indicate three approaches. They are not mutually exclusive; they can be reconciled, combined.

The first approach is the one to which the chairman has already referred, and it is what I would call the "area of concentration approach," which is indicated as being our approach in the Foreign Affairs Review, and which is, as you know, the CIDA approach. CIDA has identified a number of areas of concentration, and this is where they put most of their money and time.

In the Review we seem to say that Latin America and the Pacific Rim will be the Canadian areas of concentration. The reason why I smile is twofold. Firstly, Latin America and the Pacific Rim constitute very wide areas. It is just like telling a hunter to concentrate on the bear. These are big, big areas. So, it is a bit of an eccentricity to say, "Let's concentrate on Latin America and the Pacific."

Secondly, my reason for my smiling at this thing is that I question whether Canada can afford to concentrate on anything when it comes to trade promotion. It seems to me to be a very basic principle of Canadian trade that we must concentrate on the world. How can we ignore Western Europe? How can we ignore Eastern Europe? How can we ignore the Soviet Union? How can we ignore the United States? So, if you cannot ignore anything—and I do not think we could or should—then it is difficult to say: concentrate on something. It is just like saying: concentrate on everything. As a matter of fact, this is what we are doing. But I thought the idea of concentration was one that, without discounting, should be taken, as we say in French, "avec un grain de sel"—with a grain of salt—at least when talking about trade.

The second approach to trade promotion, which I find to be more rewarding, is "concentration on products." Of course, Senator McNamara, Canada would sell anybody anything they can find in Canada which is surplus to our needs. So much the better if the Japanese want more wheat, barley and coal. But at the same time it would be wise, I think, to devote a lot of our attention in our promotion, in our financing support too, to what I called in my Latin-American speech, "sectors for growth". I am going to read what I said at the time.

What could be the sectors for growth?

In the process of solving its own domestic problems, Canadian industry has over the years constantly had to conquer vast distances, difficult problems of resources extraction, extremes of heat and cold, as well as other climatic, topographical or even cultural "barriers".

As a consequence, not surprisingly, Canada has developed particular competence in a number of technologically advanced secteurs de pointe. These fields include: transportation, telecommunications, mining, forestry and fishing, education.

Well-known examples include the trans-Canada microwave relay system, the Arctic communication system, earth satellite ground stations, microelectronics and telephone electronic switching systems; ... specialized aircraft, aerial surveys, flight simulators, forest fire-fighting techniques using water bombers, airborne infra-red fire and heat detectors, airport design, construction and equipment—with Ste-Scholastique and Toronto coming, it is surprising the amount of expertise that Canadian engineers should develop from these two projects-equipment for railways, roads and subways; hydro-electric power dams, stations and grids, high voltage transmission equipment; mining and forestry techniques and equipment; nuclear reactors; educational equipment.

In the process of solving their own problems, Canadians have contributed substantially to new technology.

The theory is very simple: perhaps some of the lessons we have learned can be shared with, perhaps some of the equipment we have created can be used by our friends in the Latin-American and Pacific Rim.

This thesis is not the invention of the wheel, as Mr. Kierans would say; but sometimes we have a tendency to overlook the obvious.

This is really the meaning of the "products concentration approach." Again, I repeat that you do not ignore the rest of your export possibilities, but in your promotion, in your financing of exports, for example, you pay particular attention to these things, because this is where, presumably, en principe, you have a greater contribution to make, having already made it in your own country. This is also where you have the best possibilities of creating employment.

Of course, when you think of equipment, of products, you include services also. You include consulting services; you include the firms specializing in the creation of these technologies, equipment and plants.

So, very simply, this is the products concentration theory. If you analyse present Canadian Government trade policies, you will find that we are paying a lot of attention to this, more and more attention to it.

Let me give you just two or three examples. As you know, GAAP, the General Adjustment Assistance Program, was developed at the time of the automobile agreement with the United States and the Kennedy Round application. You know how the program works. It allows the Government to pay 50 per cent of consulting services to guarantee 90 per cent of a loan by a bank. If the bank does not want to make the loan, and when the plans are acceptable to the GAAP board, the Government will even make a direct loan to the industry, when it has the export improvement capacity. That is one way of favouring concentration on certain types of products that exist in Canada and are desired in another country of the world.

Let me give you two other examples, one which is not yet in the books, but it will get there soon. I hope you will support me.

Many engineering firms find it difficult to pay for feasibility studies on projects abroad. If you are the president of a consultant service you may bid once, you may pay for a feasibility study a second time, and possibly a third time, but if you lose on the first three in one year you are bound to be discouraged when a fourth opportunity comes.

I think it is generally assumed and recognized now that the engineering firms are very often the "advanced guard" of the traders in today's world. If a certain firm in Montreal, Toronto or Vancouver gets a contract in Malaysia or Singapore, possibilities are greater that Canadian equipment will be used. I just say "greater" and not "automatic," of course.

So my department is thinking of developing—and this is not original because the Americans have done it and the British are doing it too—of establishing a risk sharing system with Canadian consulting firms going into the field to make feasibility studies to bid on projects. I think this will be an important contribution, and I hope to be able to announce that this has become a fact in the coming weeks.

I do not know if you observed, but another innovation has taken place. There was an announcement from CIDA on October 8 on this subject. CIDA has come out with a

plan to support Canadians who want to invest abroad. Investment, as you know, is another way of developing trade with a country. If a Canadian firm establishes abroad, then the possibilities are that Canadian equipment will be used or there will be a common venture and some parts of the end product might well be manufactured in Canada and some other parts in the other country.

So CIDA has now, for developing countries only, the right to make a contritution of \$2,500 for "starter" projects. They also share, potentially on a 50-50 basis, the cost of feasibility studies.

I just wanted to indicate that new trading and investing support methods are being developed at this time by the Government.

These were the first two approaches, what I called the "area concentration approach" and the "products concentration approach."

My third point is to say that known techniques are being improved. Let me just give you a list. You might want to question us on these things.

First of all, and coming back specifically to the Pacific Rim, there is no doubt that Canadians, in general, are showing a lot more interest in the Pacific. By showing interest they are creating interest in the area. I know many of you have been around there, but the Prime Minister, myself and a number of ministers have been there too. One can debate on the usefulness of ministers, but one thing which is sure is that when they travel they attract attention—interviews, articles on Canada in the press, et cetera, and when the present Prime Minister of Canada in particular travels, that is a real subject of conversation wherever he goes!

Not only are Canadians politicians travelling to the Pacific, but politicians from the area, from Australia and New Zealand, for example, in recent months have also come to our country.

We are trying to go a bit beyond that. You may be aware that there is an institution called "ministerial meetings". Canada already has ministerial meetings with a number of countries in the world, in particular with the United States and with Japan, and we are now developing a similar approach with Australia and New Zealand. These ministerial meetings have many advantages. One of them is to create an atmosphere of "It's got to be done!" If you know there is a ministerial meeting on December 5 in Japan or in Australia, then a number of things which were progressing at a slow pace suddenly start to run.

The Chairman: It creates a deadline.

Hon. Mr. Pepin: It creates a target.

Senator Grosart: Ministerial incentive.

Hon. Mr. Pepin: Yes. That applies to all levels of government and even to business.

So that is my first point: there is more interest being shown by Canadians and politicans of the Pacific countries. When I went to New Zealand I was the first minister travelling there since C. D. Howe in 1956, if my memory serves me well. It is difficult to pretend that you

have shown great interest for the Pacific, at the political level when you face a situation of this kind.

My second point to illustrate efforts at improving known techniques of trade promotion, is that trade commissioners in the area—there are seven in Japan, eight in Australia, we have opened a post in Indonesia, South Korea would like to have one, we are going to have two in Peking—are very active. They have extended their operation: they are now looking for investment possibilities in Canada as well as for trade opportunities. The service is not static. Their excellence is recognized. Hardly a week passes by without letters from businessmen or politicians coming to me complimenting the department on the quality of its trade commissioners.

Another thing is very often done now: when the export opportunity is a very specialized one—bearing in mind that the trade commissioner cannot be specialized in everything—we send more and more often specialists from headquarters. The idea is not new, but its use has been accentuated.

Our exhibitions and missions are still very useful. Osaka was obviously a very great success in terms of creating in that country an interest in Canada.

Other things are being done in the department. There are new techniques, like consortia: you put a number of people together who have a common interest so that they go after a foreign project together. We have one which is called "Airports for Export." Canada is good at building airports, so we put different professionals in a group in order to increase the efficiency in their bidding.

The department is very active also in trade policy, and I am quite sure you will want to question my officials and myself on that.

(1) China was not recognized, as you all know, for trade reasons, but there is nothing wrong with trying to get some more trade out of that decision.

You are all aware of the fact that steps have been taken that will lead to the setting up of a mission in Peking. There will be two trade commissioners in that group. You may question us on the possible trade advantages that will flow from this. Senator McNamara will indicate his views on that, I am quite sure.

The general pattern has been that following recognition the recognizing country enjoys a certain advance in trade—ten per cent, or something like that. At that point it levels off. Will it be the same so far as Canada is concerned? I certainly hope not. Our trade commissioners and business men will want to make sure that the general rule does not apply. We had contacts before with mainland China through Hong Kong and the Canton fair, but the fact that our men will be in Peking will make relations with the seven trading companies much easier than before.

The Canadian Wheat Board has previously a sort of "special status" in Peking. Now all other Canadian traders ought have the same advantages.

(2) We are working hard trying to convince the Japanese to speed up their liberalization, and we are negotiating—some of my officials are in Japan today—on textiles. I am sure you will want to question me on the question of textiles.

(3) Another thing we are doing with respect of trade policy is trying to rejuvenate our trade agreements with Australia and New Zealand. The British entry into the Common Market will obviously necessitate a review of our trade agreements with these countries, and in so doing we will try to maximize access for Canadian goods in both countries.

(4) In respect of trade with the developing countries, you will, if you read my Friday speech in Windsor, have the full survey. The main recent feature here is, as you may know, the General Preferential Scheme. You might want to go into that to see how the scheme will advantage developing countries of the Pacific area and Canada at the the same time.

Canada is participating also in international aid organizations, as I have already indicated. We are a founding member of the Asian Development Bank, and we are now exploring the possibility of acquiring a "non-area membership" in the Economic Commission for Asia and the Far East. We are now an "observer".

The department is active on tourism promotion. I.T.C. has tourist offices in Sydney and Tokyo. We made a special effort to bring Japanese travel agents to our pavilion in Osaka. Japan is the fifth largest exporter of tourists to Canada, and recent changes in their regulations on travel and foreign exchange make it possible for them to come to Canada for reasons other than trade.

I should not forget to say that the Government is supporting export by providing money to EDC. About a year ago the Government supplied more money to the Export Development Corporation; there is another bill coming up in the house in a few weeks continuing that trend. Canadian exporters to the Pacific area will no doubt use these facilities.

You have all read in the business papers that the Export Development Corporation is more and more aggressive in stimulating exports from Canada.

Finally, there is also a growing interest in trade with the Pacific in the Private sector of the Canadian economy. The Canadian Committee for Pacific Basin Economic Co-operation, which has been established in Canada through the Chamber of Commerce and the Canadian Manufacturers' Association, is very much at work. The next meeting, as you may know, will take place in British Columbia, and will be hosted by the Canadian committee.

I have said enough Mr. Chairman. Perhaps you think I have gone on for too long, but I wanted to give a proper idea of the activities in the field of "trade with the Pacific rim."

The analysis that your committee is making of this subject is another indication of the growing interest I have talked about. My department will be very attentive to what you are doing. It will contribute to the analysis that you are making.

The Chairman: Thank you very much, Mr. Minister, and thank you in particular for your closing remarks. I think it is clear to this committee, and to everyone present, that you have given a great deal of thought to your presentation. We are grateful for the background

work that has gone into it, and we are grateful for the supporting cast that you have brought with you today.

As I indicated before, Senator Cameron will lead the questioning. After Senator Cameron is finished, the Chair will recognize other members of the committee.

Senator Cameron?

Senator Cameron: Thank you, Mr. Chairman. Mr. Minister, appropos your introductory remarks as to quoting your own speeches, I would say that you are in very good company. I recall an occasion upon which a former Dean of Law at McGill was appearing before the Privy Council in England, and he quoted a reference in which he was concerned. The Lord Chief Justice said: "I presume this is a very eminent counsel. I see the name Corbett here," and he answered: "Yes, very eminent." So, you have a good precedent.

Hon. Mr. Pepin: Do you want to table your own speeches?

Senator Cameron: Secondly, I would like to congratulate you on the format of the magazine, *Foreign Trade*. It is very attractive, and it is a departure from the usual type of Government publication in that a number of the articles are reasonably brief. So many such articles usually go on and on as though the author was being paid by the word.

Finally, I should like to congratulate the foreign service officers. It has been my privilege to meet many of them in various parts of the world, particularly in the Pacific Basin during the past four years. They are doing a good job. My only question is: Is there enough manpower there to do the job? I do not think there is.

In line with your own philosphy, it is my view that you have got to go after and develop every possible opportunity. In other words we must not pass up anything. In order to do that we probably need to strengthen the manpower in this area. So much by way of introduction.

This is such a fascinating topic and such a large one that obviously we could go on questioning you for a great length of time. The chairman has given me the privilege of making a selection of the areas upon which I would base my questions. Not being a financial expert I shall leave the financial end of the matter to those who are most expert in it than I, but it is significant to note, I think, that the value of the total exports to the whole Pacific area last year was about \$24 billion, and of this Canada's share was four per cent. That is going up a little bit this year. This shows that there is a tremendous opportunity there, and I think it is likely we shall have to be selective, as you have suggested.

As a westerner, I am very conscious of what Japanese contracts and Japanese investments mean to Alberta and British Columbia. Every fifth person you sit beside in the hotels, and on the trains and planes, in the west today is a Japanese. This is not happening just to Canada. I have just come back from six weeks in Europe and everywhere I went, even in relatively small towns, I met Japanese engineers and Japanese economists. Everywhere they are pushing the Japanese image and Japanese

nese products with energy and a dynamism that we have not seen before.

This has far-reaching implications for Canada, because we are going to have to compete with these people. I think we must keep that in mind in looking at the overall picture.

My first question is: There is an increasing resistance to Japanese imports into the United States because they are beginning to hurt. In the event that the United States imposes some restrictions which will have the effect of cutting down exports from Japan to the United States, will such an eventuality react to the benefit of Canada? That is my first question. My second question relates to our recent recognition of China, and Japan's relationship to China. Is it not inevitable that Japan will more and more move into China, certainly if she meets with restrictions in the United States, as it seems likely she will. Is not that even likely to make it tougher still for Canada to get into the Chinese markets?

My first question is: In the event that the United States imposes restrictions on Japanese exports, is this likely to react to Canada's benefit?

Hon. Mr. Pepin: Let's try to put the question in still broader perspective. The Americans, like ourselves, are in negotiation with the Japanese at present on textiles. Our "approach," as you know, is quite different. The Americans would like to impose global quotas. The Canadian approach is a more sophisticated one. We ask generally for voluntary restraints on their part, and only in respect of specific textile items, those which "damage" the Canadian industry. We stand by Article 19 of GATT.

What will happen if the Americans and the Japanese agree on restrictive quotas? We do not know at what level these restrictions on Japanese imports will be placed, but if the level is low then what will happen is that the pressure on the Canadians will be even greater—what the Japanese and the other low-cost countries will not be selling in the United States they will try to sell in Canada. So that will make our life even more difficult than it is now. That is the answer to your first question.

Your second question is that you want to know if the Japanese presence and influence in China will be greater if their exports should decline in the United States. We would have to qualify that, I would think, by saying first that textile is only one aspect of Japanese exports to the United States. There are so many other items on which they may recoup what is lost on textiles, if anything.

I doubt very much also that, comparing Japan-US trade and Japan-P.R.C. trade, we are talking about the same commodities. What the Japanese are exporting to the United States is not what they are exporting to China. So I do not, off hand, see the interrelationship, but maybe Mr. Burns does and I will ask him to comment. I was looking in my pile of notes because I wanted to show you something of the Japanese trade picture—here it is—which complements what you were saying.

The Japanese in 1969 were exporting to the United States \$5-billion worth; to South Korea \$767 million; to Hong Kong \$614 million; and to the Republic of China—

that is Taiwan in this case—\$606 million. So, their No. 2, 3 and 4 importers are all countries of their own area.

This supports what you were saying about the Japanese presence in the area, how strong it is. I would think that in some cases exports to the three countries mentioned are on a subcontract basis. By so doing, the Japanese benefit from advantages they used to have at home but do not have any more to the same extent.

Senator Cameron: Cheap labour.

Hon. Mr. Pepin: Cheaper labour. For continental China that export figure is \$390 million—quite substantial too, but their "area of concentration" is mostly the other countries around mainland China—South Korea, Hong Kong and Taiwan.

Senator Cameron: But is it true that at the recent Canton Trade Fair, which has just concluded, out of some 4,000 representatives of other countries, 1,200 were Japanese as against 40 from Canada? This gives some idea of their aggressiveness and the impact they are making there to get into this tremendous market.

Hon. Mr. Pepin: I agree 100 per cent with you on their effort, though sometimes I wonder why there is all that mass movement. One week you meet a mission that is here to investigate something, and two or three months after another mission is here to investigate the same thing or to investigate the investigation that has taken place. I may be wrong. I would like to remind you also that Japan has five times our population, giving them five times more businessmen going around than we have.

However, I am impressed, as you are, by their aggressiveness, by their shrewdness—if that is the proper word in English. For example, the way they went about buying coal in Canada is very intelligent. They were ahead of everybody else in assessing the present "return" of coal. The way they diversify their sourcing is also impressive—they have a piece in the United States, a piece in Canada, a piece in Australia. In the case of wheat as well, as Senator McNamara knows, they play one source against the other quite intelligently.

I am impressed also with the way they get these sources of raw materials, usually with minimum direct investment, while others invest heavily abroad, sometimes provoking domestic debates. The Japanese come around and sign long-term supply contracts with the potential exporter, and that is enough for the domestic banks to provide the money for the development of whatever project was in question. This is all very intelligent.

Senator Macnaughton: Before we get off this subject, under the heading of textiles, can the Minister at this point say anything about the quality of Japanese textiles vis-à-vis Canadian?

Hon. Mr. Pepin: I am not an expert on quality, only on quantities.

Senator Macnaughton: My point is that if you go to Japan today, unless you are in the very high priced

section of the stores, the general quality seems to be very cheap. It might be a factor in the competition.

Hon. Mr. Pepin: When I went to Japan I was impressed by the very high level of prices; so much so that one begins questioning oneself on the extent of the sacrifices that the domestic population makes to raise exports.

The Chairman: This is on a comparitive basis with Canadian products?

Hon. Mr. Pepin: Yes. Did you have the same experience, Senator Cameron?

Senator Cameron: Yes. That question Senator Macnaughton raised was the next one I had.

Senator Macnaughton: I am sorry.

Senator Cameron: The imports of rubber footwear and textiles. In the documents here you quote rubber sneakers, as we call them, at 18 cents a pair. We cannot begin to compete with that.

Hon. Mr. Pepin: We are not trying to either, and we should not as we cannot under any circumstances. We must be selective on what type of footwear we produce.

Senator Cameron: But the quality is not that bad. I have seen these sandals and have seen them used. The quality is not that poor. In days gone by it is true that the quality of a lot of these things coming in from Japan was inferior to our standards. This picture has changed, but the price differential is there in bulk quantities, but to go into the stores in Japan or anywhere there, there are no bargains and you come back impressed with what you get in Canada.

Hon. Mr. Pepin: From Japan?

Senator Cameron: Yes. The answer to this is that rubber footwear is one of the sore points as far as the import quota is concerned, and textiles. They and the Chinese are saying that unless we buy more from them, they are not going to buy more wheat.

Hon. Mr. Pepin: I would like to talk for just one moment on that subject. It is a big subject and I am interested in it, and I hope that you are going to go into it in some depth because it is high time the Canadian population in general learned about these matters.

When I talk about having a textile policy in Canada everybody looks at me with a frown, as if I were about to exclude all imports.

Just one figure. There is now only 5 per cent of Japanese export to Canada on "voluntary restraint" basis—5 per cent. In 1960 it was 32 per cent. We are not cutting off trade between Canada and Japan by developing a textile policy in Canada.

Another thing we should put on the table at one point during your discussions of imports from the Pacific area is the degree of penetration of the Canadian market by imports from low-cost countries. It is high time Canadians knew all the facts. When they see the facts they will realize that we are not developing a protectionist policy in Canada by developing a textile policy—and, soon, I

hope, a footwear policy too. If you look at the degree of penetration, it is deep, as you know. In the cotton textile business already 57 per cent of the Canadian domestic market is in the hands of importers. I will give you the figures showing the comparison between what the Canadian population takes in footwear, textiles as compared with what the Europeans and the Americans are taking in. It is comparing a dog and a camel.

The degree of possession of the domestic market by the domestic economy in the United States is in the 80 and 90 per cent bracket. In Canada it is 57 per cent only. I am sorry; I reversed the situation a moment ago. I meant to say that 57 per cent of the Canadian domestic textile cotton market is in the hands of Canadians manufacturers; 43 per cent in the hands of importers.

Senator Grosart: Might not that indicate, Mr. Minister, that we are protectionists?

Hon. Mr. Pepin: That indicates that we have not been, to my way of thinking. Do you think we should get rid of the textiles industry in Canada, the footwear industry in Canada?

Senator Grosari: I did not mean to interrupt Senator Cameron, but perhaps I might ask this question. Is it so that the department, officially or unofficially, has indicated to some Canadian textile industries that there will be a cut-off point on their protection related to the efficiency of their operation?

Hon. Mr. Pepin: That there will be a cut-off point?

Senator Grosart: A cut-off point in the protection Canada is giving our textile industry.

Hon. Mr. Pepin: I don't know what you mean and this shows the point I was trying to make. I think you should reserve a meeting of this committee to go into the textile question in some depth, because when we talk about trade with the Pacific we talk in part about textiles, as the greater part of it is coming from the Pacific Rim and it becomes one of the important aspects of the study that you are conducting at this time.

Senator Grosart: The reason I asked the question was that at a meeting, I think it was this summer, we had some parliamentarians from South-East Asia. One of your officials gave me the impression that he told that group that there was such a policy.

Hon. Mr. Pepin: When we meet I will give you also the other side of the story, which is a description of the items which are still unliberalized in Japan, because that is a relevant aspect of the study too.

Senator Grosart: You mean they are still Conservative?

Hon. Mr. Pepin: They have 100 items that they have not liberalized yet, and some of them are of importance to Canada. One cannot say that their investment policy is a liberalized one either.

The Chairman: Honourable senators, I think we will accept the minister's suggestion, and we are grateful that you have indicated, on a voluntary basis, you would like

to come back and talk about this subject. Would you like to proceed with your further questions, Senator Cameron?

Senator Cameron: I would just make one further comment on this. This is the reason it is so important to get this information out. You hear the argument used here that the high unemployment, we will say in Cornwall today, is because of the imports from the Far East.

Hon. Mr. Pepin: I will give you the list of the plants that have closed in the last five or six years in Canada, generally, not always, because of these imports.

Senator Cameron: An analogy to this is that about three years ago, when Canada agreed to take some plywood from the Far East, there was a tremendous scream here that we were importing plywood as part of a trade agreement, and we did not have enough markets for our own mills. It turned out that this amount of plywood that was taken under this contract was less than two days' operation of a small mill in British Columbia. This is the kind of reason why this kind of information must come out.

Hon. Mr. Pepin: If I may interrupt, I made a statement in the house on May 14 on the textile policy. That document will be useful in the discussion we are going to have.

Senator Cameron: You made a comment—and I heard the same comment made by the same gentleman last April, a man from the Malaysia National Bank—that they did not need money, which was a surprise to me, but they needed expertise. What are we doing to try to provide that? I have some examples of what we have done, but is there anything special in addition to what has been done in respect of fishing, radio communications, and teaching in Malaysia? I am referring here to Canadian expertise.

The second part of my question is: Has this led to the purchase of more Canadian equipment in these fields—in other words, electronic equipment, fishing equipment, forestry equipment, and so on?

Hon. Mr. Pepin: That is so, because the Prime Minister got at the wheel of one of those pieces of equipment when he was in Malaysia. Much of the participation in development in these countries is effected, as you know, through CIDA. If you think of projects in Thailand and Malaysia then you will realize that much of the equipment is provided under CIDA, and perhaps you should question them on that.

Senator Cameron: That is, we should question CIDA?

Hon. Mr. Pepin: Yes. What my department might be able to do—and Mr. Petrie is in a position to say this—is to provide you with an analysis of the export content—in terms of primary, processed and semi-processed, and manufactured goods going into the Pacific area, on a comparative basis as between five years ago, three years ago, and now. That will give us a view of the changing pattern. I am quite sure that what you said is true.

Mr. Petrie, would you like to say a few words on that?

Mr. F. R. Petrie, Director, Pacific, Asia and Africa Branch, Department of Industry, Trade and Commerce: I think I shall have to take up the suggestion that we will table it. In general, I can say that our exports to the southern Pacific, to Australia and New Zealand, are to a great extent highly manufactured. Australia is our second market for manufactured goods—that is, second to the United States.

Senator Pearson: Do those exports comprise mostly eastern Canadian products?

Mr. Petrie: I shall have to look at the figures. I think they are mostly eastern Canadian manufactured goods, but there are some from western Canada too.

Hon. Mr. Pepin: One way of doing that would be to give you the change in exports to Japan. There is the basic stuff like wheat, barley and coal, and in more recent times there has been frozen food, specialized types of meats, honey, cigars and other items going to Japan. This is what will be interesting to have.

Senator Cameron: And frozen foods is a natural for expansion in that area.

Hon. Mr. Pepin: And I forgot to mention rapeseed!

Senator Cameron: I was in Japan three years ago with two colleagues of Senator McNamara, Frank Hamilton and Vic Martins, and we were told frankly by the Chinese trade and commerce people then that if Canada expected to continue with her wheat exports to that country she would have to change the balance of trading from ten to one in our favour to their favour, and they are going to be quite tough about it. So, my last question is: Do you think that recognition of China is going to lead to a quicker expansion of trade between the two countries, and particularly purchases from that country by this country?

I notice that in this article here there is no mention of imports to Canada of sporting goods or furniture. It is just in terms of textiles. I had Canadian businessmen with me in China, and we found that we could buy footballs in Canton for \$9 or \$10 that would cost \$45 here. They were of the same quality. The same could be said of furniture, although the disparity in the price was not as great. My question is: Is there an opportunity in this area to get into the Canadian market to help to improve their balance of payments so that they could buy more from us?

Hon. Mr. Pepin: This business of balancing trade between countries is a regular debate. If you are the visiting minister in a country with which you have a deficit balance of trade you make a big pitch for balancing trade. If you happen to be on the other side you make a big pitch for the insanity of this concept! I refrain from doing that, but others are doing it unto me! There is nothing in law or in trade practice which makes it essential for China and Canada to have a balanced trade picture.

It would be quite difficult for us to take manufactured goods from China in equal quantity to the sums repre-

sented by our exports of wheat. I think it is impossible. The Chinese may say that, en passant...

Senator Cameron: I mention these two articles because they seem to be items that we might import into Canada to help improve the balance of payments.

Hon. Mr. Pepin: I will let Mr. Burns speak to that, but to come back to the previous subject to show you how efficient our department is, I have here an internal—and I am sure Mr. Petrie in answering you will extract some figures from it—on "Canada's participation in the Japanese import market for end products, 1954 to 1967". It is an analysis of the changing patterns of trade between Canada and Japan, and is produced by Mr. Macklin's service. We will extract the relevant passage for you.

Mr. Burns, what about the possibility of imports from continental China?

Mr. T. M. Burns, Assistant Deputy Minister, External Services, Department of Industry, Trade and Commerce: There are one or two short comments I might make on that aspect. I think the experiences of Canadian importers at the Canton fair, which has been the main trading arrangement that the Chinese have had with foreign businessmen, is that the quantities available from China of particular kinds of goods have not been large. I think to a substantial extent the problem, at least for the time being, is one of supply from China. Certainly I think it would be fair to say that there is a diversity of effort which the Chinese could make in this market, partly of the same character that the Japanese have, which is to move away from what have been very sensitive products in the Canadian economy over a much broader range, and I would expect as supply capabilities improve in China we will see that kind of pattern developing as well.

Hon. Mr. Pepin: It would be interesting to look—I have not got this information before me—to see the extent to which the Chinese have used their voluntary restraint agreements with Canada. My memory is that they have not always filled them. This would indicate that Mr. Burns' point is a valid one. What I mean is that they have not used even the possibilities they had of exporting textiles to Canada.

The Chairman: Senator Grosart?

Senator Grosari: Thank you, Mr. Chairman. I should, first of all, apologize to you and the committee for my absence from the last two meetings.

Hon. Mr. Pepin: It was noticed.

Senator Grosart: I was going some field work on the subject under discussion. As a matter of fact, last weekend I was at the Canadian Economic Policy Committee meetings in Vancouver which concentrated on this very subject—the Pacific Rim.

My questions, Mr. Minister, will relate not so much to the balances and imbalances currently in trade as to investment between Canada and the Pacific rim countries—I say "trade" and "investment" because they are not always the same thing. First of all, can you give us a quick rundown on the comparative access of products of the Pacific rim countries to Canada vis-à-vis our access to their markets?

Hon. Mr. Pepin: You are talking of investment now?

Senator Grosart: I am talking of trade and investment because it is very hard to have trade without some investment. I may be a little more specific later on because I have some questions of financial investment that you would not normally put under the heading of "trade".

Hon. Mr. Pepin: I wonder if it is possible to generalize. I know what the situation is in Japan. They have a hundred different tariff items that have been unliberalized. The Australians have relatively high tariffs for manufactured goods, and New Zealand has also, although we have preferences in these two cases. I do not know what tariffs N.T.B. are in Thailand, but I presume they are quite high too.

In most of the developing countries of the Pacific—and Thailand is an example—controls of governments on imports is by one way or another almost absolute, if I remember well from my visit there. You only export there if the government really wishes you to.

Mr. Petrie, why do you not take it from there, and describe what the situation re access is in each of the countries?

Mr. Petrie: I think we can say as far as Australia is concerned that the main barrier is the tariff, which is the orthodox or internationally accepted one, and we do have a preference. As far as New Zealand is concerned, there is also in addition to the tariff the balance of payments imports restrictions because New Zealand does have a balance of payments problem. These restrictions are authorized by the GATT and the International Monetary Fund, so it is quite a legal situation.

So far as Japan is concerned, as the minister has said, it does have a number of quantitative import restrictions. These are all illegal internationally. They are not accepted by the GATT or the I.M.F. as being legal.

So far as China is concerned the situation, of course, is one of state trading—one is dealing with the seven state trading corporations.

In Taiwan there is a quite elaborate system of balance of payments import restrictions, but again the Taiwanese maintain that they do not discriminate against Canada.

As for the developing countries in the area, I think we can say that they all have a balance of payments problem, and they all maintain a quite elaborate system of import restrictions.

This is a thumbnail sketch of the facts of the situation.

Senator Grosart: I know it is very difficult to generalize, but as a starting point could you answer this question: On balance is the Canadian market more open, trade-wise and investment-wise, to the Pacific rim than the Pacific rim is to Canada?

Hon. Mr. Pepin: I will stand to my dying days by the statement that Canada has the most open market in the world

What Mr. Petrie said gives more credit to the idea that if you want to make an impression in this market, you have got to use, for the time being anyway, other avenues than that of straight bilateral trade—"we have got this, you have got that; sell us this, we will sell you that"

You have got to get into joint ventures with them. This is one way of getting yourself accepted. You have got to have a feasibility study sponsored by CIDA, and then convince them to take our goods.

So, this is where you have to have Canadian financing. A lot of the stuff, as the E.D.C. people will tell us in a moment, we sell in this area is sol dthrough the facilities of the Export Development Corporation. Perhaps Mr. Carlton knows the percentage. But, when we sell planes to Singapore, or when we think in terms of an airport for Thailand, and that sort of thing, it is usually conditional upon financing coming from Canada. So, the Export Development Corporation then becomes a sine qua non instrument of trading in the developing countries of the area, and even in Australia in many cases.

The Chairman: Would you like Mr. Carlton to develop that?

Hon. Mr. Pepin: Yes, by all means.

The Chairman: Mr. Carlton?

Mr. F. M. Carlton, Loan Director, Asia Area, Export Development Corporation: So far the EDC has signed long-term export loans in the Pacific rim to the value of \$57.943 million. These loans were made for sawmill and furniture complex, aircraft simulators and telecommunications equipment. We have under negotiation at the moment in the Pacific rim a total of \$40.869 million.

Hon. Mr. Pepin: That is financing.

Mr. Carlton: This is direct financing.

Hon. Mr. Pepin: How much have you guaranteed?

Mr. Carlton: Under the insurance part of our corporation, in the medium-term field for EDC account we have at liability half a million dollars. On government account we have $\$3\frac{1}{2}$ million. Under short-term policies we have \$13.875 million liability.

The Chairman: This is the current position, today?

Mr. Carlton: Yes, just before I came up here.

Hon. Mr. Pepin: I should have mentioned also when I was talking about new facilities offered by the federal Government, that EDC now has a clause guaranteeing investments in developing areas against non-commercial risks. Again, this is a service added recently.

Senator Grosart: It seems rather strange that CIDA would be doing this rather than the development corporation. I do not understand why CIDA gets into this

business of direct financing of Canadians in these countries.

Hon. Mr. Pepin: No, no!

Mr. Carlton: These figures I gave are not CIDA's figures; they are Export Development Corporation figures.

Senator Grosart: I see; I am sorry; but I understood that CIDA was getting into this also.

Hon. Mr. Pepin: No, what CIDA is doing is subsidizing "starter" and feasibility studies for possible investment in developing countries—private investment.

Senator Grosart: If I understood these figures correctly, the EDC has a much larger direct investment than it has on the guarantee account, is that so?

Mr. Carlton: Than we have on the insurance side. We have a greater direct lending interest than we have on an insurance interest.

Senator Grosart: How much do you have under the guarantee account?

Hon. Mr. Pepin: The guarantee of what-investments?

Senator Grosart: Yes—the guarantee against non-commercial risks.

Hon. Mr. Pepin: The guarantee system is not operative yet.

Mr. Carlton: We have had inquiries from the Pacific

Senator Grosart: You have been in business for a year. Why not the Pacific rim, Mr. Minister?

Hon. Mr. Pepin: What happened here was that in the legislation there was a clause that necessitated the negotiation of agreements between Canada and the governments of developing countries where such insurance of investments would take place. These governments—and I do not blame them—have resented the idea and have told us that they did not particularly like the idea of admitting that they were a commercial risk...

Senator Grosart: A non-commercial risk.

Hon. Mr. Pepin: Right, a non-commercial risk, and some of them have been shrewd enough to ask for a similar guarantee of delivery of goods by the Canadian Government. By the way, this might create a constitutional issue in Canada, as usual, as to who should give that kind of guarantee. So, that clause of the EDC act will be amended. This is part of the bill that you will study within a few days. We will be satisfied, from now on, with the guarantee of the foreign government that the national bank, or their department of finance...

Senator Grosart: To what countries have these non-commercial risk guarantees been extended now? I am not speaking of the Pacific rim because obviously there is none, but outside of the Pacific rim? Have not some been extended to the Caribbean countries?

Mr. Carlton: This problem, as outlined, has stalled us, and that is why we are going forward for the new legislation to take that out of our requirements.

Hon. Mr. Pepin: So, with regret, it has failed, but now we are coming along with something else and the interesting part is what the EDC gentleman was saying about the possibilities that have already been indicated; that is requests that have already been made to ECD from the Pacific countries, among others.

Mr. Carlton: We have had inquiries for investment insurance in every Pacific rim country to date.

Senator Grosart: How is the \$57 million distributed—if I may ask Mr. Carlton, through you, Mr. Chairman?

Mr. Carlton: The signed contracts total \$57 million. There was \$5 million with Taiwan—actually, that was prior to Canada's recognition of the People's Republic of China; \$7.68 million, Malaysia; \$2.7 million, Singapore; \$757,000, New Zealand; and \$41.806 million, Philippines.

Hon. Mr. Pepin: You might also repeat what the financing was for.

Mr. Carlton: The Taiwan transaction covered sawmill and furniture complex. The Malaysian contract covered the sale of Caribou aircraft. The Singapore contract covered the sale of Twin-Otter aircraft. The New Zealand contract covered the sale of an aircraft simulator. And The Philippines is all telephone equipment—central office switch gear, et cetera.

Senator Grosart: What about Australia? Is not Australia included in those figures?

Mr. Carlton: Not in the signed ones. At the moment we have under negotiation \$18 million in Australia, \$16.4 million in New Zealand, \$5.794 million in Korea, and a very small amount of \$675,000 in The Philippines.

Hon. Mr. Pepin: Those I know of are for very sophisticated equipment—electronics and that sort of thing; so this is more meat to the point you were making sometime ago, Senator Cameron.

Senator Grosart: Mr. Chairman, in view of the preponderance of our investment in Australia up to now, is there a reason why none of the \$57 million so far has covered Australia?

Mr. Carlton: Primarily, the reason is that EDC has not had approaches from Canadian exporters. It is only just recently that we have had this \$18 million approach. I regret I am not a liberty to divulge what it is.

Hon. Mr. Pepin: Senator, there is also the fact that these facilities are not necessarily used. There are other means of finding the capital needed for exports—you can go to the banks, for example. This is the traditional and normal way to go about it. So it is generally only in certain types of countries that the facilities of EDC are used. As a matter of fact, there is no EDC financing for exports to the United States.

Mr. Carlton: Not at the moment, Mr. Minister.

Hon. Mr. Pepin: That is not generally the way exports are financed between Canada and the United States.

Senator Grosart: There is no reason why not, that I can see, unless EDC is harder to get money from than the banks.

Hon. Mr. Pepin: Is it?

Senator Grosart: I do not know.

Hon. Mr. Pepin: I do not think I will start that rumour.

Senator Grosari: I think most businessmen, if they can get money on easier terms from EDC rather than from the banks, would go to EDC.

Hon. Mr. Pepin: Most of the businessmen I have heard from, and it is quite a number of them—and this is to be underlined—say that the aggressiveness and quality of services that EDC is giving at the moment are remarkable. There were learned articles in the press on this subject. EDC are very flexible; they study what the particular case is; and if some other country happens to be providing concessional financing in that area, they try to make up for that. This is all done openly. I have talked about that is the House.

Senator Grosart: A final question, Mr. Minister.

The Chairman: Before you ask your final question, Senator Grosart, I would like to ask a supplementary to yours.

Mr. Minister, do you have a "top" on this? Is this on a quota basis? How far do we go?

Hon. Mr. Pepin: Mr. Carlton will indicate what the monies are. EDC have an overall capacity of nearly \$2 billion for guarantee and financing. Some of it is on government accounts, some on EDC accounts. Some financing of wheat exports is on Canadian Wheat Board accounts. Two million is the amount we would like to increase in the bill which is being introduced. It will do that and will correct the difficulty we have on the guarantee of investment. This is the bill you are going to have in your hands in a few weeks.

Senator Grosari: A final question, Mr. Minister. This really comes out of the point that was emphasized rather strongly in these meetings in Vancouver on the weekend, that Canadian businessmen tend to expect far too much from your trade commissioners; that they are tending to expect them to do the marketing. Could you trade commistee what the terms of reference of your trade commissioners are in respect to the support of or assistance to Canadian business?

Hon. Mr. Pepin: They are male business entremetteurs!

Seriously, trade commissioners do all kinds of things, from finding a hotel room for the incoming businessman to concluding a sale on his behalf. The other day I had an industrialist who came to see me. He had just been selling locomotives in Australia, I think it was. He said,

"All through the sale your trade commissioner there was writing to me, 'Don't worry, it is on the right track.' On a number of occasions I felt like going myself, because I wanted to be reassured, but the commissioner kept saying to me, 'Everything is going nicely.' Finally, the sale was made and this gentleman wrote to me and complimented the department on the imagination and aggressiveness of our trade commissioner in Sydney.

Senator Grosart: To complete the metaphor, I know your trade commissioners have an excellent track record, but I wonder if this point that was raised was not that their very excellence may be inhibiting the enterprise of Canadian businessmen; in other words, that they are relying too much on your trade commissioners. Regarding the Canton Fair, which has been talked about all over the world, our poor showing there might be a case in point.

Hon. Mr. Pepin: I am not aware of the "poor showing". You have to make a distinction between big companies and smaller ones. The smaller one would tend, of course, to rely more on a trade commissioner than Noranda or some of the big ones who do not need the trade commissioner really to tell them what to do. So the work of the commissioners varies very much, depending on who is at the other end.

Senator Grosart: This will perhaps help your answer. Do you permit them to do actual order taking?

Mr. Burns: Senator Grosart, the trade commissioner is really involved in all the aspects of the marketing proposition, except the actual taking of the order and the signing of contracts. If I understand your point correctly, it could be put in another way: It would be useful to have more Canadian businessmen travelling in the export markets and doing some of this work themselves. I must say I think the department feels the more the better in this area, because the work the trade commissioner can do will be much more valuable if the representative of the firm concerned is on the ground. There are limits to the development you can do in the course of correspondence. So, if you are asking: Should businessmen be on the road more? I think we agree that they should be.

Hon. Mr. Pepin: Senator Cameron seemed to regret that we do not have more of them, and I agree with him, but we have limited funds and we have to balance the expected results in each particular case. Let me give you an example. I said a moment ago that we were going to have two in Peking and one that we had recently appointed in Indonesia.

The South Korean Ambassador in Ottawa—quite rightly, because we have full diplomatic relations with them; they have an embassy here, and they have trade commissioners in Montreal and Toronto—comes to see me and says: "How is that you have not opened an office in Seoul?" I answer him: "Well, we have \$10 million worth of trade with South Korea at the moment. It is growing, but let us see it grow a bit more before we open an office there. At the moment I cannot justify it."

We have just opened, as you may know, a trade commissioner's service in Minneapolis and in Buffalo. These

are areas with which Canada does hundreds of millions of dollars worth of trade. Are we going to sacrifice Minneapolis or Buffalo in order to have one trade commissioner in Seoul? That is the question. Having limited funds, we have to make a decision, and we have not yet made one to send a trade commissioner to Seoul. I wish we could.

This brings me to a point upon which we might reflect. Seventy per cent of our trade—this year it is 65 per cent but this is exceptional—is with the United States, and 30 per cent is with the rest of the world. The amount of time, money and intelligence that I.T.C. put into the 30 per cent is without proportion. That fact should be underlined because that is part of a Canadian political decision, i.e. not to put all our eggs in one basket, to try to multiply the baskets. This has to be taken into account also when we balance the advantages and disadvantages of having a trade commissioner here or there.

Senator Cameron: Let me hasten to say that I am very anxious to see many more Canadians go and do their own searching, so I tie the two together.

Hon. Mr. Pepin: Yes. The point I am trying to make is that the efforts that have been made recently through CIDA, through the EDC, and those that will be made through my department in the coming days, to make it easier for Canadian businessmen and consultants to go out and hunt for the jobs, should be underlined.

Senator Macnaughton: Mr. Chairman, my questions, on account of the slippage of time, will be slightly schizophrenic, I am afraid.

The Chairman: They are nonetheless accepted, senator.

Senator Macnaughton: I should like to compliment the minister on his trade commissioner service. Over many years I have found them completely outstanding in the various countries. I will not go so far as to say...

Hon. Mr. Pepin: I will send an "engrossed" copy of yours and Senator Cameron's remarks to them.

Senator Macnaughton: ...that the other services are not good, but when it comes to the crunch the trade commissioner is usually the best man that you can get in his particular function. As Senator Cameron said, let us increase their number as much as we can within the limits of our capability.

In dealing first with Japan I should say that I do not pretend to be an expert just because I was there about three weeks ago, but there is no doubt of our tremendous success. The selling job that was done at Osaka through the Canadian pavilion was to such a degree that the impression we have created in Japan is fantastic. They are almost our blood brothers in sentimental feeling, and they do want to trade with us. It was urged on me from all sides that now is the time for a crash program to get into the Japanese market, even if we have to sort of relegate other necessary things to the side and concentrate on capitalizing on the great impression we have made. I was told that in the future our chief competitors—certainly one of them—will be Australia, which may or may not be selling similar commodities.

It is almost theoretical, but it might be useful and interesting if the minister could speak of the method of co-operation in Japan between the Japanese Government and industry. They seem to have worked out a very happy, associated and aggressive policy of financing and promoting business, which I presume we cannot follow in this country. The reason why I ask this question is that it would appear that the Japanese are great purchasers of our resources, and I ask: What exports, and to what degree, can we export to Japan, in particular? It is all right to be a resource supplier, but surely we cannot go on forever. The minister has already referred to the competitive action of the Japanese in getting their base resources from several competing countries.

Hon. Mr. Pepin: I find that the co-operation that exists between Japanese businesses and industries and the Japanese Government is most intimate. This is well known, and you said it very well. I might add that it is not only between government and industry, but it is between industries themselves. If one industry is being attacked by any country of the world, all the other industries line up behind it and they all exercise the necessary action abroad and in Japan. They work together extremely well.

Your question is as to whether such a system might be good for Canada. I suspect that you would find a lot of opposition on the part of Canadian business to a similar arrangement being put into effect in Canada. I have always been very keen to say that there is a need for much greater cohesion and co-operation between industry and government in Canada. And it is coming. Even in my two years as Minister of Industry, Trade and Commerce I have observed the change of mood. I think businessmen in Canada are realizing better than ever what they stand to gain from making use of government services and programs. So, I think the intimacy is growing in Canada too. It has not reached the degree it has reached in Japan, but I suspect that most of the Canadian population may not want that, irrespective of the fact that it has proved very successful in Japan.

Perhaps there are factors making this possible in Japan that do not exist in Canada. There is a collective psychology in Japan that makes this easier than it would be here. The discipline and the tradition of government authority are stronger there than here.

That was a good question, Senator Macnaughton. I am sorry the answer is not as good.

Senator Macnaughton: I am sorry to call attention to it because, as you know, the world trading patterns are changing rapidly with the multi-national companies and all the rest of it. At least we could look and see what our competitors are doing. Perhaps there is something to be drawn from it.

 $\mbox{\sc Hon.}$ $\mbox{\sc Mr.}$ $\mbox{\sc Pepin:}$ I think there is a lot being drawn from it.

Senator Macnaughton: I was hoping that the Government in turn might be sympathetic.

Hon. Mr. Pepin: In Canada you still see some nineteenth century behaviour on the part of some businessmen. The other day we had a good example of that. There is Company X—I shall not name it, of course—losing money. The departmental people go to see the plant, analyze the operation, and say, "There is a possible immediate saving of \$250,000 a year in this plant". We inform the company; we offer to pay for consultants to corroborate that fact. The owner does not want it.

Senator Grosari: He wants to lose money.

Hon. Mr. Pepin: So it would appear, or he does not want the Government to meddle in his affairs, or he has become so used to running his own show that he does not want anyone to come in and tell him that he is not operating efficiently.

Senator Macnaughton: Let us be fair. There is the reverse situation, I imagine, where the business community could suggest one or two improvements in governmental activities which would save considerable amounts of money.

Hon. Mr. Pepin: Sure, I get that message every time we meet with business men.

Senator Macnaughton: There is no restriction so far as I know, Mr. Minister, on investment in Japanese stocks, except from the Japanese end. Is that so?

Mr. V. J. Macklin, General Director, Office of Economics, Department of Industry, Trade and Commerce: Do you mean in respect of Canadian investment?

Senator Macnaughton: Canadians can purchase stocks on the Japanese stock market—Japanese stocks—can they not?

Mr. Macklin: That is true.

Senator Macnaughton: This is subject to Japanese Government limitations.

Mr. Macklin: Yes, that is right. There is a temporary restraint, but that has to do with our being free from mandatory restrictions in the United States. We have undertaken to exercise some element of restraint in terms of the amounts of money that flow to overseas countries, but this is a voluntary restraint and generally money does not move to Japan and other countries quite freely.

The Chairman: But is that an overall restraint or is it a specific restrain directed to Japan?

Mr. Macklin: It is an overall restraint.

Senator Macnaughton: It is to prevent a flow-through from upsetting American law.

Mr. Macklin: Yes.

Senator Macnaughton: I have one simple question: What type of goods are we exporting to Japan at the moment, outside of coal and wheat?

Mr. Burns: Those tend to be so large as to almost overwhelm everything else. The first 80 per cent of our exports consist of copper ore, wheat, pulp, aluminum,

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lumber, rapeseed, iron ore, newsprint, asbestos, flax seed, potash, and nickel ores.

There are increasingly small and interesting shipments of manufactured goods. For example, there are one or two electronic companies in Canada that are selling successfully in Japan specialized electronic equipment that meets a gap in Japanese industry, and we are moving more manufactured food products but they have not reached anything like the volumes of those traditional products.

Hon. Mr. Pepin: You might observe that coal is not in the top category yet, but coal will get there very rapidly. I understand that by 1975 Canada will be exporting \$250 million-worth of coal to Japan.

If you look at this table you will realize the speed at which our exports to Japan are growing. They amounted to \$316 million in 1965 and to \$624 million in 1969. From January to July, 1970 they amounted to \$477 million, as opposed to \$370 million, during the same period of time last year. That is an increase of more than \$100 million in six months of 1970 over six months of 1969. That's fast!

Their exports to Canada are similarly growing very rapidly. The figures are: 1965, \$230 million; 1969, \$495 million; and the first six months of 1970, \$324 million as opposed to \$265 million for the same period last year. Exports from both countries are increasing very, very rapidly.

Senator Grosari: Senator Macnaughton, may I ask a supplementary question?

Hon. Mr. Pepin: If I may interrupt again, senator Macnaughton, the question that you raised re manufactured exports to Japan and to the whole of the Pacific Rim, will be answered in a paper we will submit to you the next time we meet.

Senator Grosart: Mr. Chairman, my supplementary question is on the so-called liberalization, or lifting or easing, of Japanese restrictions on Canadian equity investment in Japan. The distinguished Japanese ambassador, Mr. Kondo, said recently that it was a misconception that Japan still has a closed door policy concerning foreign investors and entrepreneurs, and "the door is ajar now and swinging open at a quite rapid pace". Would the minister and the department agree?

Hon. Mr. Pepin: Are you talking about investments or exports?

Senator Grosart: The words he used are "foreign investors and entrepreneurs". I am speaking largely of investment now—taking an equity position in existing Japanese industry.

Hon. Mr. Pepin: Mr. Macklin might answer that.

Mr. Macklin: I think this is another question. The Japanese have designated a large number of industries in which foreigners can participate on an equity basis. However, there are also industries in which foreigners cannot participate. An examination of the list of industries in which they can participate indicates that many rapid

growth industries are not included. I think it should be understood also that all participation is still subject to approval. It is not an open door. The door is ajar, but any new industry wanting to establish in Japan does require approval of the authorities to do so.

Senator Grosart: Then, would you say, Mr. Minister, it might be a contradiction of your previous statement about our open door—that we might be going in one direction in respect to access to our equity market, and going in an opposite direction to the Japanese in our own Canadian policy?

Hon. Mr. Pepin: The question is not too clear to me. Three situations have been defined now. The first one has to do with the possibility of stock investment in Japan. The second one with the possibility of equity investment in Japan. Mr. Macklin has answered that.

The third aspect is the limitation of imports, one way or another, in Japan. Japan is now down to 100 items of restricted imports, and this is still coming down. When I arrived in the department it was 120. By now they have liberalized 20 more. They have a program for continued liberalization. The name of the game as far as Canada is concerned is to try and convince them to liberate faster.

Mr. Burns: "Timing and tempo"!

Hon. Mr. Pepin: Mr. Burns is alluding to a conversation we had at the time of the last ministerial committee meeting with the then Minister of Trade of Japan. He said to us that it was just a matter of timing and tempo, so I kept almost harassing him with the phrase "timing and tempo." Everything became a matter of "timing and tempo," we thought that their timing and their tempo were a bit too slow.

Included in these 100 items still unliberalized are some items of particular importance to Canada—whiskey being only one.

Senator Macnaughton: Is the minister in a position to say anything about whether or not we have succeeded in the sale of an atomic reactor to the Australian government?

Hon. Mr. Pepin: At last information negotiations were very much on. When I was in Australia, the Australians were very open, saying that all seemed to lead them to a purchase in Canada. Among other things was the fact that our CANDU system seemed to fit their particular situation. They also have uranium. But, as you know, nuclear reactors is a very competitive business, where everything counts, where the balance of trade picture between countries is brought in, as it was in the case of Argentina, where accidents of domestic economies influence the decision, as recently happened in Rumania. You never know if you have made a sale until both parties sign at the bottom of the contract.

Senator Macnaughton: I have heard that the U.S.A. is quite interested.

Hon. Mr. Pepin: Every country is. I am quite sure the Germans are; I am quite sure the British are using all their influence.

Senator Macnaughton: There will be a great deal of pressure, actually, of course. Is it a fair question to ask whether you are in a position to explain how, for the sake of argument, 20 years ago Australia was in a very precarious economic condition and yet today there is no unemployment? Were there any particular trade measures that were taken, or any particular policies that took the country by the bootstraps and made it into a prosperous country—outside of the mining development—which seems to have saved the situation?

Hon. Mr. Pepin: Obviously, Australia, like Canada, has tremendous resources, and these resources are now exploited to a much greater extent than in the recent past. There is a boom. But the question is really more to the point than that: How is it that with a somewhat similar base to the Canadian base with respect to resources, they have managed to do without unemployment? Let me think!

Senator Grosart: They have just found them.

Senator Macnaughton: Perhaps that could be another paper.

Hon. Mr. Pepin: On the manufacturing side they have taken a much more protectionist approach than we have, and on the short term that helps keeping jobs.

I was talking a moment ago with a Member of Parliament and, because some negative comment had been made, I remarked to him about the fact that 1.35 million dozen shirts will have come into Canada this year. If you wanted to protect employment in Canada, bearing in mind that just two or three years ago we used to have 3,000 more employees in the shirt business than we have today, one way of keeping 3,000 jobs would have been to prevent shirts coming into Canada. If you want two to four thousand jobs tomorrow you just have to apply the subsidy system for the construction of ships for domestic consumption to exports. If you want to have a few thousand jobs you just have to limit the import of textiles into Canada. There are ways in which you can find these jobs. How good the way is is another matter.

However, as you well know, Canada is vulnerable to a tremendous extent in international trade, because we depend on sales of a great number of things, in the greatest possible number of countries. We are vulnerable to any pressure exercised, we are susceptible to pressure exercised by almost any country of the world. You know how it works. The Ambassador of Rumania was in my office the other day trying to get approval for a few thousand dozen more shirts. He was doing his job. I took an hour to explain to him that if we did more for Rumania on the shirt side, ther would be 17 countries at the door the next morning to ask for equivalent treatment. Jamaica, Trinidad and Tobago, Hong Kong, Japan, South Korea, Singapore, Malaysia—every shirt exporter would be at the door saying, "How is it you have done it for Rumania, a newcomer, and not doing it for old friends of Canada? We have our plights also; we have our floods; we have our problems. If you need a flood, we will set one up." These problems are all due to the fact that Canada is a world trader in many commodities. We

have coal, wheat, nuclear reactors, flight simulators, uranium—all kinds of things to sell.

Senator MacNaughton: What was the last one—uranium?

Hon. Mr. Pepin: Yes.

Senator Macnaughton: I was just kidding you.

Hon. Mr. Pepin: Yes, I know. I understand the allusion.

The Chairman: Do you appreciate the joke?

Hon. Mr. Pepin: Let me give you an amusing anecdote I used the other day in a speech. The Ambassador of the Soviet Union, who is a very distinguished diplomat as you know, was saying to me, "It is much easier to be Minister of Trade in the Soviet Union than it is to be the Miniter of Industry, Trade and Commerce in Canada." I agreed with him, even before having any explanation of what he had in mind! He went on to say, "When we have a surplus of a certain commodity in the Soviet Union, we usually use it for domestic consumption." In Canada we cannot do that; we have to export. Their market and the U.S. market are ten times or more ours. Exporting is the only way Canada can remain competitive in terms of developing the economies of scale and specialization. If we do not export, we are finished. We export to a great number of countries, and they all tell us, "If you want to export to us you have to let us export to Canada." We are in a very difficult bargaining position.

The most important fact is probably that we have a domestic market of only 20 million people. Most of the leading trading countries of the world now can rely on a base of 100 million or more. The United Kingdom does not believe that 50 million is enough, and that is why they are joining the European Community. We are trying to do well with a domestic market of only 20 million people. We could not if we were not next door to the United States. We are not in a common market with the United States, but because of their tremendous purchasing capacity we have some of the advantages of being in a common market with them.

Senator Macnaughton: Mr. Minister, I would now like to turn to New Zealand, and include with it the meat problem of Australia. You mentioned yourself the possibility that Great Britain may make the European Common Market in due course. Needless to say, as you so well know, the New Zealanders are extremely upset. Here is their assured market which may be in jeopardy.

Is Canada considering possibly stepping into the shoes of Great Britain and stepping up the importation of lamb from New Zealand and meat from Australia, on three grounds: firstly, we need a secondary source of cheaper meat than fillet mignon every day; secondly, it would be very helpful to the concept of the Commonwealth; and, thirdly, Great Britain has to, as you have so wisely said, consider a market of 300 million and not a market of 50 million, which it has at the moment. Where does Canada stand vis-à-vis the greater import volume of lamb from New Zealand?

Hon. Mr. Pepin: I am pleased to tell you that this has already taken place. Mr. Burns might explain.

Foreign Affairs

Mr. Burns: Mr. Chairman, the Canadian tariff on meats from Australia and New Zealand is a very low one, of the order of a quarter or a half a cent a pound, depending on the variety of meat.

There has been a very sharp increase in meat exports both from Australia and New Zealand in the last 18 months. In 1969, for example, we imported \$30 millionworth of lamb and beef from Australia, \$30 million-worth of beef from New Zealand, and a good deal less, \$2.1 million, of lamb and mutton from New Zealand. So in 1969 we were buying from the two countries concerned something over \$60 million-worth of meat. This is all coming in without restriction and on the basis of a very low preferential tariff.

Senator Macnaughton: There has been an embargo during the last few months put on by the U.S.A.?

Mr. Burns: The United States has a voluntary export control system on meat with its principal meat suppliers, which include Australia and New Zealand, and that keeps them at a certain ceiling level in the United States. Canada has not adopted anything of a similar nature.

Senator Macnaughton: I do not want to over-emphasize it, but has Canada considered stepping up its purchase of New Zealand meat—let us say, lamb and mutton—for the Canadian market, over and above the recent treaty?

Mr. Burns: This is in the hands of Canadian businessmen. There are no government restrictions, that I am aware of, that would prevent the movement of Australian or New Zealand meat into Canada, other than the low tariff.

Hon. Mr. Pepin: The "embargo" last year was a very temporary one. It was due to the changes of policies on this matter taking place in the United States at that time. Huge quantities of meat were coming into Canada. The other reason was the sanitary condition of some plants in Australia. So, it was a very temporary thing.

Senator Macnaughton: Mr. Chairman, I think I have taken enough time.

Senator McElman: Regarding that \$60 million you speak of, in increased inports from Australia and New Zealand, would you relate it to what it was a year or two years previously?

Mr. Burns: I do not have the figures here, but it was a great deal smaller. We can supply those figures. I just happen to have the 1969 figures before me.

Senator McElman: Would it be in the order of a 50 per cent increase?

Mr. Burns: Yes, something of that order. I think perhaps it would be higher.

Mr. Petrie: Mr. Chairman, I have the figures for 1969 for New Zealand. The figure was \$3.2 million in 1969, and skyrocketed to \$29.8 million in 1970.

Senator Macnaughton: But much of that was trans-shipped?

Mr. Petrie: Yes, trans-shipped to the United States.

The Chairman: Do you have a factor figure on the trans-shipment?

Hon. Mr. Pepin: That is quite difficult to assess.

Mr. Burns: There has been a net increase in our consumption of Australia and New Zealand meat.

Senator Macnaughton: My basic question, Mr. Minister, is: Is it possible for your department to stimulate the consumption of more mutton and lamb in Canada?

Hon. Mr. Pepin: I eat as much as I can myself! We cannot force people to do that. As Mr. Burns was saying, Canadian importers are usually very active and very imaginative.

The Chairman: Are there any further questions? If not I shall ask the minister if there are any loose ends that he would like to tidy up.

Mr. Minister, we have had you here for two hours, which is one hour more than we anticipated, and we are extremely grateful. Are there any other matters upon which you would like to comment?

Hon. Mr. Pepin: Mr. Chairman, our relations with Japan are obviously the central aspect of our trade with the Pacific Rim. Japan is to the area what dear old England was to Europe and to the world in the nineteenth century. It is the big ship navigating off the shores of the Pacific. It is the big manufacturer that takes in the raw materials and grinds them up, and produces the manufactured products that are then distributed all over the area. There is no doubt that Japan will play a greater and greater role in Canadian trade in future years.

Relations between Canada and Japan are generally friendly. They are difficult at times. When the subject is their quota limitations on our textiles they become a bit more difficult, but we agree to disagree. There is no doubt that a lot of attention will have to be devoted to Canada-Japan trade relations in the coming years by governments, business, and public alike.

When I was in Japan recently the minister said to me: "You have observed the tremendous gap between our exports to Canada and your exports to Japan... \$660 million as compared to \$490 million." I said yes I had observed that, and when he asked me if I could do something about it, I said: "I will trade with you. I will take your exports to Canada and you will take our exports to Japan in return" as you know, their exports to Canada have a high manufactured content while our exports there are of the raw or semi-processed type. This is a typical fase of where asking for balance of trade between two countries is obviously not logical or acceptable. After I made that offer the Japanese minister burst into a big smile—he knew better than that.

This is a point we shall have to stress all the time, that we take from Japan manufactured goods such as electronic goods, highly sophisticated stuff, while they take from us—and we are very pleased about it—coal, wheat, barley, rapeseed, and minerals .

Senator Grosart: Did you obtain Premier Bennett's consent to the making of that offer?

Hon. Mr. Pepin: No, but I could make it very securely because I knew that it would not be accepted! The Japanese Minister of Trade is very intelligent.

Another aspect of this is that provincial governments tend to want to develop their own trade commissioner service around the world, particularly in Japan. As you know, Ontario has opened an office in Tokyo. This is not a straight duplication because provinces are more interested in investment than in trade, although our trade commissioners are under instructions now to be interested also in investment.

Senator Grosart: Both ways?

Mr. Burns: Yes, both ways.

Hon. Mr. Pepin: Here I must publicly compliment Mr. Skillings, the Minister of Trade and Industry of British Columbia, for not opening an office in Japan! He and I have a working arrangement. If he ever finds that the Canadian Government trade commissioner service is not giving British Columbia satisfaction he will consult me before he decides to open an office. This is very rational. I hate to think that all the provinces of Canada will have a trade commissioner service, because that is a really unnecessary expenditure of funds.

The Ontario trade commissioner in Tokyo is probably a most distinguished and intelligent gentleman, but I sug-

gest that it will take him two or three years to obtain half of the experience that the Canadian Government trade commissioner service in Japan has accumulated over the past decades. I suggest also that he will be dependent upon the services of the Canadian trade commissioner for much of the business he will develop. Perhaps it would have been wiser to have had an extra Canadian Government trade commissioner there. However, this is just a general position that I am taking.

Senator Grosart: Mr. Sharp would agree with you.

Senator Cameron: You had better telephone Premier Strom right away.

Hon. Mr. Pepin: Is he thinking of doing this?

Senator Cameron: Yes.

Hon. Mr. Pepin: Then I will.

The Chairman: Thank you, Mr. Minister, for your appearance here this afternoon, and for the demonstration of the energy and enthusiasm you expend on this whole area. I speak for the committee when I say that we are very impressed by what you have said, and also by the answers that have been given by your very competent officiels.

The committee adjourned.









Third Session—Twenty-eighth Parliament
1970

THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

Foreign Affairs

The Honourable ALLISTER GROSART, Deputy Chairman

No. 3

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JAN 7 1971 *

UNIVERSITY OF TORONTO

TUESDAY, NOVEMBER 10, 1970

Respecting

THE PACIFIC AREA

(Witness: - See Minutes of Proceedings)

THE STANDING COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman and

The Honourable Senators:

Belisle Macnaughton
Cameron McElman
Carter McLean
Choquette Nichol

Connolly (Ottawa West) O'Leary (Carleton)

Pearson Croll Quart Eudes Rattenbury Fergusson Gouin Robichaud Sparrow Haig Sullivan Hastings White Laird Yuzyk-(30) Lang

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to reign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 10, 1970:

With leave of the Senate,

The Honourable Senator Grosart moved, seconded by the Honourable Senator O'Leary:

That Rule 76 (4) be suspended in relation to the Standing Senate Committee on Foreign Affairs and that the Committee have power to sit while the Senate is sitting today.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Tuesday, November 10, 1970.

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 4:00 p.m. this day.

Present: The Honourable Senators Grosart (Deputy Chairman), Carter, Connolly, Eudes, Gouin, Lang, Macnaughton, Quart, O'Leary (Carleton), Pearson and Yuzyk—(11).

Present, but not of the Committee: The Honourable Senator McNamara—(1).

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued study of the Pacific Area.
The Deputy-Chairman (Senator Grosart) introduced the witness:

Mr. R. W. Bonner, Executive Vice-President, Administration, MacMillan & Bloedel Limited, Vancouver, British Columbia.

The witness was thanked for his contribution to the Committee's work.

At 6:00 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreing Affairs

Evidence

Ottawa, Tuesday, November 10, 1970

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 4 p.m.

Senator Allister Grosart (Deputy Chairman) in the Chair.

The Deputy Chairman: Honourable senators, I regret to say that the chairman of this committee, Senator Aird, is not able to be here today. He is unavoidably absent due to an indisposition which, I am glad to say, is in no way serious.

Our witness today, Mr. Robert Bonner, is known to many honourable senators. I find it difficult not to call him the Honourable Robert Bonner but, under our strange system, former provincial ministers do not carry the appellation "honourable"—which is something that should be corrected in due course.

Robert Bonner was a member of the British Columbia legislature from 1952 and held the portfolio of Attorney-General for 16 years. He held other portfolios in that government. He was Minister for Industrial Development, Trade and Commerce from 1957 to 1964, a department which has been very active in all aspects of economic relations of British Columbia and western Canada generally with the Pacific countries which are the current subject of our discussions in this committee.

He retired from the government in 1968 and is at the moment the Executive Vice-President, Administration, of the MacMillian Bloedel Company, which is closely associated with the Pacific area.

We are very fortunate as a committee to have Mr. Bonner with us. I might say that I had the privilege only last week end of being with him at the meeting of the Canadian Economic Policy Committee in Vancouver which zeroed in on more or less the same topic as that which concerns our committee, namely, Canadian-Pacific relations.

Mr. Bonner has provided us with a precis of his remarks which have been distributed to members of the committee. Without further ado, I will ask Mr. Bonner to present his views, comments and his evidence to the committee.

Mr. R. W. Bonner, Vice-President, Administration, MacMillan Bloedel Ltd.: Mr. Chairman and honourable senators, I am delighted to have the opportunity of being heard today on the subject of the Pacific Rim, because I feel so strongly that our recognition of this part of the

world as a trading area has been overdue and now that it is a formal part of our national policy to recognize this area, as has been the case for a number of recent years past, I believe that we require to learn more about the area in all its variety of detail and concert policy in that direction if we are not to lose by default the realization of many of the opportunities which exist there.

I should say, first, Mr. Chairman, that I am not in the habit of distributing copies of my own speeches but the invitation to appear before your committee is of comparatively recent date and I did not have the opportunity in the intervening space of time to prepare more formal remarks. However, the remarks which I delivered on May 25 last, of which I understand copies have been circulated, represent views which I had developed at that time and which are essentially unaltered today.

However, I share in what I imagine to be the chief problem of the committee, the difficulty of getting into this general subject which is a very broad and complicated subject, easily and in detail. In that connection, I thought I should draw to your committee's attention, Mr. Chairman, the publication of a number of items of reference which I found very helpful and which members of your committee might care to examine at their leisure.

There is, for example, a publication of the Government of British Columbia, the Department of Industrial Development, Trade and Commerce, entitled "The Pacific Rim, an Evaluation of British Columbia Trade Opportunities". This is a publication of very recent date, having been during September althouth distributed only imprimatur bears the date of July 7. It will be found in this document that there are compilations based on United Nations data, some of the less well-known publications of federal departments, data from American sources, such diverse summations as midyear populations and crude birth rates of Pacific rim countries, the latest available figures on external trade of Pacific Rim countries, the estimates of total and per capita gross national product of Pacific rim countries. There is also the best summation that I have seen of export through the British Columbia customs ports to the Pacific rim countries showing, in 42 categories, those things which we send out of the west coast to the United States, to Pacific Latin America, to Japan, to the territories comprising Oceania. to other countries in the far east and, as well, exports to the U.S.S.R. and the People's Republic of China which has been recently recognized diplomatically by our country.

I know that copies of this publication are available from the provincial government and I would suggest,

with deference, that the committee might find it useful to have this material called for, so as to form part of your committee's record in these proceedings.

I would like next to relate to the meeting which you, Mr. Chairman, attended with me on the west coast, in reference to papers which are in preparation by the private body known as the Canadian Economic Policy Committee. I do not know if it is widely recognized that there is at Carleton University Professor K.A.J. Hay, no doubt personally known to many here, who has written in a very penetrating way concerning Japan in the next decade.

I have come quickly in discussion of the Pacific rim to discussion to the kingdom of Japan because of one conclusion which is in my printed remarks, namely that the Pacific rim opportunities are in large measure made in Japan at the present time.

In a publication of the Canada-Japan Council in May of this year, Professor Hay published a Canadian view on this subject and I am sure that your staff can call on this document, which in my personal opinion is one of the best insights which anyone can bring to this committee, as to Canada's view of this part of the world in the immediate future.

Senator Macnaughton: Will you give us the reference, sir.

Mr. Bonner: Yes, the reference is to the Canada-Japan Trade Council Monthly Bulletin and I believe it is for May, 1970.

I do not want to take a lot of time in an opening statement, except to refer to two or three of these things which can be pursued privately, and I would like to draw the attention of the committee to a speech given by Tadayoshi Yamada Permanent Executive Counsel of the Nipeon Steel Corporation who was the invited guest at a British Columbia Natural Resources Conference at a meeting held in Vancouver in April, 1970. I have had the opportunity of knowing Mr. Yamada for a number of years and was instrumental in having him invited to this particular meeting. He in turn delivered a very detailed address under the title of "The Pacific Horizon is Bright". And in the course of this he delivered a modern Japanese viewpoint on Canadian-Japanese relationship, which is best examined in its original text rather than to hear me give a version of it. I refer to this background material, Professor Hays' remarks and Mr. Yamada's speech because of what I personally perceive to be a great deficiency in our approach to the Pacific rim, namely, a lack of just everyday knowledge of what the Pacific rim comprises. We think very readily of relationships continentally with the United States because we have so much history and so many institutions in common, and we know almost instinctively how to deal in the North American continent even without an intimate detailed knowledge of a local problem which might be approached. To a lesser extent, but nevertheless to a very real extent, this is also true of Europe. Our conditioning from our various European heritages in this country makes it very easy and there is no psychological barrier in the way of any Canadian businessman going to

any part of western Europe, and even although he may not be personally or intimately acquainted with the community, he can find his way in very quickly.

This is not so readily true among the Pacific rim countries off the north and South American continent, and I take out of that context, of course, Australia and New Zealand with which we have automatic rapport. But, for example, when you seek to do business with Japan or when you seek to do business in Malaysia or the countries of Oceania, there is an immediate cultural lack of familiarity which represents a very real and practical psychological barrier against the otherwise commonplace task of doing business. In other words, you have to spend a lot of time finding your way in.

Senator Pearson: Has language anything to do with this?

Mr. Bonner: Language of course is a problem, but that is not the most complicated problem to which I refer. The ordinary structure of many of the societies involved, the resort or non-resort to local government or national government are all features which have to be individually explored and experienced. For example, quite a different approach is required in Malaysia as distinct from Japan and so on. I do not offer these views out of extensive personal experience, but on the basis, in one instance, of personal experience but more than that on the experience of others who have been there and who have shared their experiences with me.

In other words, the approach to the Pacific is not to be viewed as being other than a complicated question of culture, of language and of unfamiliar history and institutions, and it would be unwise to overlook these facts as an obstacle to easy penetration of the Pacific excluding the western hemisphere countries of the Pacific and excluding, of course, Australia and New Zealand.

The scope of my distributed remarks identified or sought to identify the expectations generally amongst the OECD countries for the seventies, and I endeavoured in those remarks to single out in the Pacific rim countries Japan as having the prime moving role in widening the horizons of active trade in that part of the world.

I shall not trespass on the committee's time by referring in detail to those printed remarks, but at the risk of oversimplifying what is involved in the Japanese expectations, I think it is fair to say now that the per capita GNP of Japan is equal to or possibly slightly ahead of the per capita GNP attributed, say, to the Maritime provinces. At the expected rate of growth in which I have some confidence of their achievement, Japan's per capita GNP should equal that of Canada by the mid-1970s, and on the basis of these general expectations for which there is a good deal of history which would give one confidence that they will be attained, the Japanese GNP by the end of the 1980's will have surpassed that of all of the western European countries and become a close challenger to the expected GNP of the United States itself at that time.

I put those views forward conscious of all the limitations that can be associated with that type of projection. But the Japanese have displayed great ingenuity and great insight into their capacity for attainment. In 1965, which I regret is rather a long time ago now, as part of a provincial delegation to Japan as a guest of the National Government I had the opportunity to see a number of the factories which had been recently brought on the line. For example, the Yawata Steel Company was occupying a new site created out of the sea at Kansai, outside Osaka, and having seen similiar installations in Germany, in the United Kingdom and in the United States previously, I think it is fair to say that the Yawata Steel Works that I viewed were the most modern which at that time could be seen. I don't know how many metres of plant were involved, but there was scarcely a workman in view and the steel was racing through there at 30 or 40 miles an hour from ingot to shape in a fascinating manner. Later, if we get into it, I can give references to Japanese expectations in steel. At their present rate of growth and development they estimate they will be the prime steel producers in the world by 1973. That will be quite an achievement even if they are delayed a year or two in realizing their expectations.

The second thing about all of this achievement is, of course, the Japaneses dependence on material from abroad, and in this regard I think that your committee's attention, Mr. Chairman, would be well directed to a white paper on trade published by the Japanese Ministry of International Trade and Industry earlier this year. It is referred to in the Canada-Japan Trade Council News Letter of October, 1970. With your permission I would like to refer in paraphrase to a portion of the summation of the Ministry's statement:

Japan now ranks second in the free world in her consumption of natural resources. In 1969 she was 45.4 per cent dependent on overseas sources of supply, and at the present time her ratio of import to total demand in crude oil, for example, is 99.5 per cent, iron ore 99.1 per cent, coking coal 74.7 per cent, copper 51.1 per cent, zinc 54.3 per cent, and nickel 100 per cent.

An examination of Canadian exports to that part of the Pacific shows how our supply and the Japanese requirements are intimately linked, and this is equally true of Australia, our Commonwealth cousin, in the Pacific. But more than Japan's dependence on raw supply is the subtle transformation which its burgeoning economy has produced in the profile of Japanese life. In years gone by it was possible to refer to Japanese industry which, in many aspects, was labour intensive. However, there has been a two or three phase transformation of Japanese industry with the result that there has been within Japan a deliberate phasing out of labour-intensive activity, so much so that there is now in the ministry's own statement an acknowledged labour shortage, and correspondingly a need within Japan to concentrate on technologyintensive products.

This produces a tripartite obligation on Japanese domestic policy. They are urgently now required to

increase productivity in low productivity industries by reorganization and rationalization, and in some cases shifting the industry out of the country entirely, as in the case of textiles to Taiwan, or as in the case of a portion of shipbuilding which has gone to Singapore. There is a very intensive domestic program of the introduction of modern labour saving methods, and correspondingly to assist domestic policy there is an increasing emphasis on dealing with developing countries by investment and by exporting know-how, and by avoiding direct competition with the products of those developing countries.

It is this labour-intensive transformation which in my view holds out great opportunity to countries such as Canada, because many of the raw stuffs which are sent off-shore require to be transformed in industries which in Japan are still labour-intensive, and, more than that, in industries which are heavy consumers of energy.

It occurs to me to suggest that a portion of Canadian policy with respect to Japan would properly concern itself with a rationalization of trade between the two countries, of which the Canadian-American pact on automobile production might be an example of application. In other words, where Japanese energy is expensive and difficult of obtaining, Canada with domestic energy surpluses could increasingly upgrade the nature of its exports while still maintaining its service relationship to a growing Japanese industry.

The unhappy fact that we have labour surpluses within this country also lends itself to a rationalization along these lines as well.

I put this out as a prospect which deserves more detailed national study, because having become a dependable, responsible, and large-scale supplier of many Japanese raw material requirements over the years we can interpose the legitimate viewpoint that we ought to be upgrading the quality of those exports to Japan in every possible way.

When I had something to do with this subject as a matter of public policy, these points were touched upon with various Japanese delegations with whom I met. There was not at that time any resistance to this idea, any more than there was any resistance to the suggestion that Japanese interest in this country should properly take the form of joint ventures in which Canadian industry and Japanese industry could join in a proper and profitable partnership for our own advantage as well as that of Japan itself.

So I think that there is on the Japanese side frank recognition of legitimate aspirations of this sort which might be properly voiced on our side, and I put that forward as a matter which this committee might take into account as its deliberations proceed.

Mr. Chairman, I have unfortunately perhaps dwelt too much on Japan in connction with the Pacific rim, but I do so because of its undoubted importance in the present, and its even greater importance inthe future. To speak of the Pacific rim in terms of Japan, of course, is not to view the situation in a complete perspective. I referred a little while ago to the British Columbia publication, and I return to it to point out that many of the Pacific Rim

countries have absolutely unacceptable per capita GNP's-that is, unacceptable in terms of their long term contentment with their lot. Cambodia, for example, has a per capita GNP estimated currently to be \$150; Taiwan, \$322; Indonesia, \$97; South Korea, \$212; Laos, \$72; and Malaysia, \$344. Figures of this sort—and I understand our discussions do not touch on the Western hemisphere at all-indicate to me that there cannot be in those quarters of the Pacific-and those quarters to which I have made reference are essentially in the southeast part-other than a fertile hunting ground for doctrines that promise uplift. Indeed, one of the complications, as I read it, of the Vietnamese activity is the complication of the interest of Mainland China. The North Vietnamese forces are contending for the future of that unhappy country faced with the prospect of its development with a North American philosophy as represented essentially by the United States and, to some lesser extent, by Australia which is also represented in that action. In other words, West and East meet very forcibly at that point in a situation in which per capita GNP in a very low level of material attainment must bedevil and frustrate the life of most of the inhabitants of that country.

It is perhaps a dramatic identification, but nevertheless it is a typical one of that part of the world, and I refer to it in my distributed remarks in the context that among the five leading actors in the Pacific—the United States, Japan, Australia, New Zealand and Canada, and the balance of whom I have described as the strugglers—there has to be a disinclination for the strugglers to accept their lot. Correspondingly, there is thrown upon the leading actors in the Pacific some responsibility to be of assistance in enabling these struggling people to improve their material standards of attainment.

This particular aspect brings us quickly into a view of Canadian aid programs abroad, as well as those of Japan and the United States in the same area. I think there is a role that Canada can discharge in this area, but it must be recognized that the immensity of the problem is such that we cannot be expected to save the day single handed. Indeed, our own capacity to be useful in this regard is severely limited by the fact of our population and by the fact of our sluggish growth in our own GNP.

However, I think our country has done very well in the efforts it has expended to date. If there was one choice we had to make between training Ph.D.'s, however, and training foremen, I think we should be frank to recognize that a brigade of foremen would be worth a division of Ph.D.'s in almost any country of Southeast Asia, because there the problem is not one of dispensing higher education. Our problem in that area is one of disseminating common industrial competence at the millwright level, so that they can deal with the material that comes into their hands, whether it be a plough drawn by a tractor for the first time, or whether it be a sawmill which they are starting for the first time, or whatever it may be. Their requirement is in common industrial knowledge, it would appear to me, rather than there being a case for extreme academic attainment.

Mr. Chairman, perhaps I have delivered myself of enough general views and exposed myself sufficiently

that some questions might be asked. I therefore suggest that questioning might be more appropriate, if it would meet with your committee's wish.

The Deputy Chairman: Thank you very much, Mr. Bonner. I said that members of the committee had a précis of Mr. Bonner's remarks. You will note that it is dated May 25, 1970, so I presume it was prepared for another purpose. However, I think honourable senators will agree that we have had a remarkable verbal presentation from Mr. Bonner, which indicates, happily I think, that there are in Canada businessmen with a background of knowledge of the relations between Canada and the Pacific rim, which augurs well for future policy-making, from both the public and the private sector.

Following the custom of this committee, the meeting is now open for questions from members of the committee. I will start with Senator Lang, who will be followed by Senator McNamara, Senator O'Leary, Senator Carter, Senator Macnaughton, Senator Pearson, and any others who wish to indicate as we go along.

Senator Lang: The questions that I will direct to Mr. Bonner are rather a hodgepodge and arise in the reverse order to some of the remarks he made this afternoon. They are not so much questions as requests for amplification of his own personal views on the matters he raised.

Latterly, Mr. Bonner, you mentioned the rather violent confrontation between East and West in Vietnam. How would you view the effect of the trade patterns in Southeast Asia as between the other Pacific rim countries, including Canada, and Vietnam in the event of a United States withdrawal of its armed forces from that country? Would we have an opportunity to exploit a trade and technological initiative in that area under those circumstancs, or would we be hampered by our identification, perhaps indirectly, with the United States because of our geographic location, and probably our association in the Commonwealth with Australia?

Mr. Bonner: I think I would have to make an assumption in attempting to answer your question. That assumption would be that in the cessation of hostilities in Vietnam free access by the rest of the world to that country was an implicit condition. In other words, withdrawal of the United States could not be succeeded by an impressed government, say from the north, which I would view as likely to exclude western countries from that part of the world.

Assuming that kind of a peace can be achieved in Vietnam, leaving the country free in its external relationships, I see no reason why Canada and the United States might not have a proper role to play. Frankly, I would think the United States' opportunity would be greater than Canada's, because of her presence in that part of the world in a major way for a number of years. My conclusion is based in part on the experience that followed the cessation of hostilities in Korea, where the United States, although at that time joined by Canada and a number of other countries in the western world,

nevertheless remained the dominant presence in Korea as hostilities stopped.

I would anticipate, just from the momentum of continuing interest, that the United States would be there. But, as in the case of South Korea, and on the limited contacts I have had with that country, I am aware too that there is most likely to be in Vietnam, as there has been in South Korea, a desire on the part of the government and community of that country not to be wholly associated with any western country. There have been explorations by Korean business people and civil authorities to interest Canadians in dealing more fully with South Korea. It is an extremely difficult area to reach in terms of doing business, and I think South Vietnam would be an extremely difficult area from that standpoint too.

However, what Canada is doing elsewhere in Southeast Asia is described better by the September edition of Foreign Trade than any words of mine could furnish, because the Department of Trade and Industry has brought together a series of articles on Southeast Asia, Malaysia, Thailand, Burma, Singapore and so on, which shows what Canadians are doing there now. I would say that anything we are doing in southeast Asia presently we can duplicate in South Vietnam, or with the Vietnamese nation entirely if is freed after the cessation of hostilities.

Senator Connolly (Ottawa West): Do you think that either North or South Vietnam, Mr. Bonner—and we are old friends, Mr. Chairman, under other circumstances—or both countries if they come together, would be a major place for development of activities?

Mr. Bonner: No, not major, senator. We spread ourselves as 21 million people pretty thin when we get into the Pacific. I think you can probably number on the fingers of two hands the people who are successful participators in terms of corporation activity in the Pacific today. I would be tempted to encourage them to expand on proven success, rather than to try a shotgun approach to that area. That is another point.

Senator Connolly: Thank you.

Senator O'Leary: Mr. Bonner, you dealt in a penetrating and interesting way with Japan. What about China? If we go on selling wheat and other things to China, how is China going to pay us back? What do we buy or can we buy from China to redress the balance of trade?

Mr. Bonner: Senator O'Leary, I cannot give you a reliable answer to that question. China has been a closed book for so long that the prospects of business are more to be imagined than predicted at this moment. I think there are businessmen in Canada who have, over recent years, journeyed to Peking for the purposes of trading. And those men, I think, would more properly be able to offer an answer than I can.

The real impediment to doing business with China is implicit in your question, their ability to earn hard currency abroad. They earn a considerable amount of currency

rency abroad now through their trade conducted through Hong Kong, as you know. The exact amount which flows into China I do not think has ever been determined, and I think this was their main source of hard exchange at this time. In doing business with China, following the recognition of this regime diplomatically, it will be incumbent on Canada to organize a series of trade missions just to scout out the ground, because with the passage of time it is no longer familiar territory.

Senator O'Leary: Are there any reliable figures at all about the industrial growth in modern China?

Mr. Bonner: I am not possessed of such information, senator, and I would not want to guess on it in reply.

Senator McNamara: I wonder if I might interject a remark here. I was quite surprised at the presentation by Mr. Bonner of the possibilities in the Pacific rim, concentrating so much on Japan and the unknown market. It seems to me that China is a future in this area and, having had some experience there myself, it seems to me that the climate that Canada now has to go into that country and develop trade, is enormous. We are competing very seriously at this stage with the Americans on the bounds of the Pacific rim, but I am sure we would have an "in" at this time. I am wondering if private business, as we have it today, does not share my view that we have a wonderful opportunity now, with the recognition. I know it is the feeling of a great number of people I have talked with, who have a feeling of great friendship with Canada. I am not concerned about the potential balance of payments position, which I think is better than most countries of the western world. Knowing as I know from previous experience of the difficulties. I know they pay in sterling. I know from figures and from people there that their earning capacity in sterling in other Pacific rim countries is enormous. I was surprised in your approach to this and I am in almost complete agreement with all the remarks about China and the possibility that the potential of the Pacific rim and China has been overlooked. As Canadians, this is the time for us to move fast. Somebody made reference to Korea. I don't think the situation is the same there at all. because the Americans still dominate South Korea. But after Vietnam I think you are going to find that China is going to dominate that country. It will be wise enough to see that the rest of the industrial world moves into those markets and it would much prefer to help Canada get established in that area, because Australia or the United States are regarded as potential enemies. Are you thinking about China as expanding in your own firm, for example?

Mr. Bonner: Mr. Chairman, may I say to Senator McNamara that I carefully carried out an assumption when answering the Vietnamese questions posed by Senator Lang, because I would not argue that there is not a very strong possibility that the Chinese will emerge or seek to emerge as a dominant force in Vietnam if the United States does withdraw. That is what the confrontation is all about and that is why I said that I was answering on the assumption that the cessation of hostili-

ties will achieve an open Vietnam. If it is not going to be an open one, then it is going to be closed and closed against us. I am speaking about North America in general.

I dwelt on the expectations associated with Japan out of recognition of that country's proven track record. Japan, in achieving the results so far achieved, has not had to tear itself apart with the cultural revolution. It has not gone through a period in which businessmen in Peking found it difficult to return from Peking because they were quoting the wrong price in their order offers and things of this sort. In other words, I don't think Canadians know enough about internal China at the moment to speculate about its future. I would share your optimism about China by recognition of the sheer potential of six or seven hundred million highly intelligent, hard-working people. I would hope that we would be clever enough to move in and establish this type of relationship which we used to enjoy with that country.

I think I suggested, in answer to Senator O'Leary's question, that the obligation on Canadians now that diplomatic recognition has been given will be to organize trade missions to that country to scout out ground. I would also suggest that this be done as an important national priority. Short of learning the new rules I suggest that much of the hope associated with the recognition of China falls into speculation. I don't disassociate myself from hopeful speculation. I merely say as a matter of doing hard business that we have got to scout out the ground. After all there are no sales made until the order is signed. The question is how do we learn to get those orders signed. I don't think we are apart, but just the question of the intervening steps.

Senator Connolly: Senator O'Leary's problem still remains, although Senator McNamara has indicated they are not sure of foreign exchange. What do we buy from them?

The Deputy Chairman: I wonder, Senator Connolly, if I may suggest that we carry on with Senator Lang's question and come to this whole question of Canada, perhaps later.

Mr. Bonner: I would like to take out a caveat at this point to say that I doubt very much that I am a China expert.

Senator Macnaughton: Not yet.

Senator Lang: Mr. Bonner, reverting to some of your previous remarks, you mention that Canadians must recognize the greatest problems we are faced with in dealing with Japan and Oceania generally. There are probably psychological problems in understanding their forms and ways of doing business and their relationship between enterprise and government. I would assume that the Japanese suffer the same psychological disadvantages in dealing with us as Canadians.

Mr. Bonner: Yes.

Senator Lang: And today I would say probably, or certainly, there is no other country in the world that would come close to Japan in terms of developing trade abroad, but obviously suffering under the same disadvantages that we must contend with. To what do you attribute her basic success in this area as against what I would put as our relative lack of success?

Mr. Bonner: In my view the Japanese in dealing with the west recognized this problem at the outset, and a tactic was developed to cope with it in a deliberate way. There is no major industrial city in North America or in western Europe—and you can think of your own travels to bear out what I now propose to say—that does not have as an almost every-week occurrence the appearance of some fact-finding Japanese committee on some aspect of trade information.

For a number of years in the early 1960s, for example, a great many official and semi-official delegations appeared in Victoria to make themselves known to inquire in a very general way about the province and to some extent about the country. It was very interesting to me at least to see that in addition to the questions which were very much to the point there was a current briefing behind those questions, which bespoke a long and deliberate look at the meeting and at the community before they arrived. In other words, there was no casual, "I am off the plane, what do we do next boys?" sort of thing. They had an agenda which was worked out. They knew what questions required asking in order to fill gaps in their personal knowledge, and on the conclusion of the delegates' business they got up quickly and politely and took their leave. In other words, they were on a mission.

I do not want to attribute too much to this sort of thing, but my impression is that they made the western cultural gap the object of deliberate study and the object of deliberate closure, which is a perfectly proper approach for them to have taken.

What I say with respect to Japan on our behalf is that we have not, as a national policy, done the same thing. In many cases not even as a matter of private policy have too many Canadian concerns done the same thing.

In short, if we are going to achieve a companion type of success in Japan or in the Pacific Rim we have to send people out on the ground, well briefed in advance and with more or less specific missions of closing knowledge gaps as the object of those missions.

I know a number of companies which are doing that in terms of their own efforts abroad—that is, their export efforts. But all I am saying with respect to the Pacific Rim is that because it is such a fantastically complicated problem we have to be more active and more deliberate in this way than we have been in the past, if we are going to make our presence felt.

We should take a page out of the Japanese book, is what I am really saying.

Senator Macnaughton: Is your point that the federal and provincial governments could step in and put some of the taxpayers' money towards this form of education?

It is too much to expect only the large corporations to do all this development work. What about small corporations?

Mr. Bonner: Well, I am not certain that the capacity of small corporations—and I am not sure that we agree on what "small" might be-but I am not certain that small Canadian business can necessarily go abroad with expectations of success. The sheer reach required is first of all an initial obstacle. Secondly, the volumes of business available very often exceed their capacity to undertake as is the case between Canada and the United States. It is the same sort of problem except that it has a different flavour when you go across the Pacific. It would be almost better to identify, say, 50 or 100 Canadian businesses with a capacity and will to go abroad and make them the cutting edge of national policy at the outset than to engage in a shotgun program which I infer might be implied in the observation "public education". I would sooner make the shots count.

Senator Macnaughton: I did not mean "public" is that sense; I meant the cost of exploration.

Mr. Bonner: I appreciate that, senator.

Senator O'Leary: Mr. Bonner, the Japanese produce reasonably good textiles. Can you conceive of a trade delegation of Canadian textile manufacturers going to China to see how many more Chinese textiles we should buy? In international trade, I think, everybody wants to sell.

Mr. Bonner: I think that textiles might not be the best example of our thrust abroad. I cannot imagine that as an example, I must admit.

Senator Lang: Just one very broad sweeping question. I can envisage the development of our trade with Japan as somewhat following historically the development of our trade and relations with the United States, and particularly Japan may shortly reach the GNP level of the United States. Is there something we may benefit from in our own historical relations with the United States in developing relations with Japan so that we could avoid some of what we consider to be the less favourable aspects of our Canada-U.S. relationship, and I think in particular of foreign ownership—the suppliers of hewers of wood and drawers of water to our industrial trade partner—aspects like that that we are very much concerned with on the north-south axis today.

Mr. Bonner: Well, I don't share the view currently being expressed about foreign ownership. I think sooner or later Canadians are going to have to ask themselves is it better to have 51 per cent of a local Canadian undertaking selling abroad, or would it be better to have a lesser percentage of the head office wherever it is located? I think this is the type of question that has to come to the fore. I recognize that I am running against a considerable emotional tide in this regard, but we must ask ourselves whether we must commence to reinvent the nineteenth century by some of these emotional views

which are being expressed about owning our own country or buying it back, or whether we should acknowledge and try to carry out the spirit of international rationalization of trade which is frankly implicit in the European Common Market, And frankly, I think the example of the European Common Market with all its implicit international relationships and the freeing of capital and the mobility of labour promises more for this country both between Canada and the United States and probably among other trading partners than any restrictive notion about owning our own branch plants within Canada. The ownership of a small plant dealing for merchant account in a free world situation is much more parlous than that of a plant which is integrated in a rational organization of international trade. Our participation in our own affairs in this regard might be well satisfied by our current tax policies. There are very few shareholders getting as great a cut of corporate profit as is the tax department these days.

The Deputy Chairman: Honourable senators, I am sure that we in the Senate and in this committee are very happy that, having ventured on this great subject of Canadian Pacific rim relations, we have with us one who has been described as an old China hand.

Senator McNamara: I find myself in almost complete agreement with Mr. Bonner's remarks and the possibilities in this respect. Certainly as far as western Canada is concerned I have always felt that this was our special field for an expanding market.

I was somewhat surprised at the concentration on the Japanese in really competitive markets. We have a wonderful opportunity to take advantage of this and the feeling which I know exists in China. I have been there on many occasions and sympathize with them because they live so close to "big brother".

Based on my own experience in dealing with these people, I believe they generally like Canadians, which gives us a wonderful opportunity. I certainly agree with Mr. Bonner's suggestion that now is the time to have missions go over there. I do not believe that they should be necessarily confined to government organizations. They have to be specialists with certain trades and the idea of just looking at their own stack of cards and what they have to sell.

I have another comment, rather than a question, if you will forgive me. On several occasions when the Chinese were negotiating with the Canadian Wheat Board, discussions with respect to textile imports and so on took place because there was nobody else available in this connection.

Although they do not actually have these commodities, they talk about them. However, I think that for the immediate future it is almost a oneway street for Canada as far as what we have to sell is concerned. Naturally, we will have to import from them and textiles loom largely in their thinking. This country of ours has a really wonderful opportunity now to get into this Chinese market ahead of the Americans and Australians.

Foreign Affairs

I am very much impressed by Mr. Bonner's statements today. I am sure he shares my view of the prospects for the future in the Pacific rim as far as Canadian expansion is concerned.

The Deputy Chairman: To make it a question I will ask Mr. Bonner if we really have a chance now to get in ahead of the Americans?

Mr. Bonner: I am afraid I would have to speculate by way of reply, Senator Grosart. The Americans have had a presence in that part of the Pacific for many, many years and a competence which I think we would be hard pressed to match. It is true that they are a little out of favour with the Chinese Government. However, I never under-rate our American cousins.

Senator Carter: Mr. Bonner, we had Mr. Lorne Kavic before us. We also read his article in which he criticizes the reluctance of Canadian businessmen to exploit the trade potential of the Pacific rim.

He says in this article:

"Canadian salesmen in South East Asia just don't exist... I've never seen a Canadian salesman there. I've seen buyers though and bank officials. But no one actively selling Canadian products... It's a booming market... Everyone knows this except Canada it seems."

Then further on he says that a failure to exploit the potential of the Pacific rim aggressively will restrict Canada's own development.

I would like to have your view, Mr. Bonner, as to why Canadian businessmen have been so slow, and have not been sufficiently aggressive in selling in these countries. Is it because of these psychological factors that you mentioned at the beginning? Is that the sole explanation, or are there other explanations?

Mr. Bonner: I think in addition to the psychological problem which anyone would have in going to many countries in the Pacific, there is the physical limitation associated with our business community. Our business community is really not all that large, and successful Canadian business at the moment is pretty fully occupied with what it is now doing.

To go into what for most Canadian business would be a totally new area requires a completely over-and-above effort, and I think with deference to the author's remarks in this regard, he may not have acknowledged the very real physical limitations which exist in going out into unfamiliar territory in almost a speculative way as to what you might expect to secure.

I think once again one of the lessons we should not be too proud to accept from the Japanese is in the technique they have of a Canadian associate. Your finding an appropriate business associate in Malaysia might very well be your first task before you get into doing a lot of business there. The matter of having a good local partner even in Australia is a very important consideration, and one of the better ways of going into business even in our sister dominion, if that expression is still acceptable.

Senator Macnaughton: It is our Commonwealth sister.

Mr. Bonner: Certainly in doing business in the Far East it is highly desirable to have a good Hong Kong partner, so to speak. It may well be that these considerations have not been to the fore in the minds of many business people, and it might be part and parcel of what I think I hinted at in my earlier remarks, that we have got to get people out on the ground, not necessarily so much with something specific in mind as with the object in view of their learning to be familiar and at ease in unfamiliar situations. I think we need more trade missions abroad with those views, as the Japanese had with us in years gone by.

Senator Carter: Would you go so far as to agree with Mr. Kavic, when he says:

The cause of this neglect by the Canadian manufacturer would seem to lie in a comfortable preference for concentrating upon traditional markets in the United States and Europe, and a tendency to rely upon the Canadian trade service to drum up business for them in less familiar markets.

Would you go along with that statement?

Mr. Bonner: I certainly could not reject that statement out of hand. I do not know from a quantitative point of view how much actual business our foreign service has developed abroad. I know they are excellent sources of information, but it is my impression that most business is accomplished by businessmen going abroad and on the ground and signing people up. I do not think there is any other way of doing business. If it is a fact that business people in any large number are depending upon the foreign service of our national Government to do business for them then, of course, they are mistaken. I cannot suggest from my experience that this is the fact.

Senator Carter: Assuming that there is something in Mr. Kavic's criticism, can you give the committee any ideas as to what action the Government might take to remedy that?

Mr. Bonner: Certainly in going abroad it is useful to have a government official head a delegation. It opens doors that are not ordinarily opened, and it has quite an assisting factor to the business delegation. I had the privilege of heading such a delegation in November of 1963 from our timber industry to the United Kingdom when we were endeavouring to bolster our trade there in lumber and plywood.

I learned a very great deal in the course of that. The industry people present had a highly organized and very well informed group who were prepared and did meet with all elements of the British trade. Additionally, the fact I was heading the delegation brought those business people perhaps into some contacts they might otherwise not have easily achieved. I think that combination of approach was a useful one. I think it is the sort of thing which should be duplicated in many lines of Canadian activity today.

Senator Carter: I was interested in what you said about Japan moving certain industries, labour-intensive industries out to other countries, such as textiles to Taiwan and shipbuilding to Singapore.

Mr. Bonner: Yes, those were just two examples.

Senator Carter: I can see it is good business because they have a labour shortage at the moment, but would you think there is a longer range plan involved there whereby they plan to set up a co-prosperity sphere in Asia?

Mr. Bonner: Your reference to the co-prosperity sphere has an old ring to it, one which I recognize. The Japanese have commercially occupied the old area of the co-prosperity sphere far more successfully today than they ever succeeded in doing in the past. Of course, commercially speaking the area is completely contiguous to the Japanese homeland, and from the Japanese point of view it is a completely logical development.

I do not think their efforts can be faulted on that account. The Japanese have done in this century what the English did in the last century. With very limited home resources and nothing but intelligence and an ability to work hard, they have picked themselves out of the ashes of the Second World War and are now the second leading industrial nation in the non-communist world. This has been done purely by intelligence, education and sweat. They have done a remarkable thing as a result.

Senator Pearson: Were they not supported by the Americans?

Mr. Bonner: Initially, yes.

Senator O'Leary: Mr. Bonner, getting down to specifics, is there a market in Japan for forest products?

Mr. Bonner: Yes.

Senator O'Leary: The Japanese are the greatest newspaper readers in the world. From where do they get their newsprint?

Mr. Bonner: Some from Canada and some from the United States. They have set up some factories abroad, of course. They are producing fibre from a variety of sources in the south-east Pacific area. Japan has considerable domestic forestry which was cut down during the Second World War and this has left them in terms of many local supplies, deficient for years to come. They have set out to make up their fibre supply by contractual relationships with most of the countries in the Pacific rim, including our own.

However, the Japanese go beyond the day of natural fibre dependency and have reportedly invested a very large sum of money in petrochemical research, with the objective of producing a synthetic paper out of some of the byproducts of the petrochemical industry. Such a paper has now been produced. It happens to be of a very high grade and is currently very expensive, so that it does not come into popular competition. But with the

success achieved so far in this aspect of fibre substitution, and given their determination to do better, I think we should look for keen competition in this respect in the future. All of North America should.

Senator O'Leary: How much effect has transportation on growing trade with these Pacific rim countries?

Mr. Bonner: As a cost item?

Senator O'Leary: Yes.

Mr. Bonner: I do not think I can give you a generalized figure. It is an important consideration. It is one that is so important that the Japanese have succeeded in using ocean transport under their flag as a means of assisting their export policy. I am advised that in their negotiations they can give you shading on the commodity price, or the product price, or the shipping price. By reason of the closely integrated nature of their economy they have a certain flexibility in all aspects of getting the product from Japan to your doorstep, so that once again judging by the Japanese resort to shipping I would say it is a very important factor in their success, and could be in ours.

Senator Carter: If we are going to trade with the small Southeast Asia countries, are we not more likely to sell them manufactured goods? Is that where the trade lies, rather than in raw materials?

Mr. Bonner: I acknowledge that there is a considerable potential for manufactured goods in those areas. In fact, the Foreign Trade article that I referred to discusses this in considerable detail, and with deference I would refer this article to your attention for a better reply than I can give. But also in Southeast Asia there are natural resources awaiting development. There are, for example, logging and sawmilling opportunities of which Canadian companies can take advantage in Malaysia and Indonesia, and some companies have done so. Therefore, although trade is unquestionably in its conventional sense an opportunity to which we should be alive, the opportunity for investment there and engaging in primary and thereafter secondary industry is equally an opportunity open to us.

Senator Carter: I was in Japan a little over a year ago, and what surprised me was the high price of their manufactured goods compared with the relatively low price for the same goods that they export. It seems that they must have a two-price system. Is that the case?

Mr. Bonner: I cannot answer authoritatively, but certainly they have been accused of maintaining one. In the March, 1970, Bank of Nova Scotia Newsletter which it calls its monthly review, refers to this in a chart on page 2 entitled, "Costs and Prices". In the article it refers to some of this type of thing. I believe it is correct that some of the important market for Japanese industry is the domestic market, and it is a little higher than export price.

Senator Carter: If Japan has a policy of subsidizing the export of manufactured goods at the price of excessive

prices at home, in her preferred position how can a western country compete anywhere in Southeast Asia with Japan on manufactures? Is it possible?

Mr. Bonner: I do not think Canada could do so in a wide range of articles, but we might very well compete successfully in, for example, logging equipment, of which we have a particular expertise. This is the type of example where we might have some success; perhaps in oil drilling, with rigs and things of this sort.

Senator Carter: Specialized?

Mr. Bonner: Yes, specialized.

Senator Connolly (Ottawa West): There has been some of that too.

Mr. Bonner: Yes, there has been.

Senator Connolly (Ottawa West): In the islands.

Mr. Bonner: Yes.

Senator Macnaughton: Mr. Chairman, in the interesting speech which our guest made on May 25, he raises some very interesting questions. There is one question I would like to ask him immediately. You referred to the fact that we should consider joint venture deals with the Japanese. You spoke of upgrading of raw materials in Canada. You mentioned import restrictions in Japan. Would you elaborate on the type of joint venture deal that you think we might consider, and what you mean by it?

Mr. Bonner: I think I had in mind joint ventures in Canada primarily. There is a very useful summary, for example, of Canadian mineral development, entitled "Canadian Minerals and the Japanese Market", produced under the auspices of the Canada-Japan Trade Council. It summarizes in that particular industry what has taken place in mining development. On page 7 there is a reference to Japanese interests in Canadian copper producers, for example, and "joint interest"—which is a very loose term and I had difficulty with it because it is difficult to give it precision anyway—has taken a variety of forms from an equity interest to advances against production or just outright loans.

It was in that area of activity that I used the expression "joint venture," although I must say that in my own semantic I used "joint venture" as a joint equity venture of some description, with the security of the Japanese requirement as the promise of the success of the venture. I think that is the way our developments ought to go.

Senator Macnaughton: There are several of those developments going on at the present time in different industries.

Mr. Bonner: Yes.

Senator Macnaughton: And the result is exactly as you say. The people who invest, let us say a foreign investor,

wants the security of supply. We on the other hand are very happy to have an assured market in return and we split the cost. Is that what you had in mind?

Mr. Bonner: Yes, that is right, exactly.

Senator Macnaughton: Do you feel that this gives us a certain degree of control? It is a joint effort, a joint venture.

Mr. Bonner: It is a joint venture. I am not certain what control is really implied in a supplier-consumer relationship. It seems to me that the customer has a considerable control. But the joint venture proposal, which was originally encouraged by the government to which I belonged, had as its long range objective the day when the raw product development might be taken to a higher degree of development, so that the producing of, say, ore concentrate would go to the producing of, say, copper blister, or the production of ingot iron or something of that sort.

Senator Pearson: What about Sherritt-Gordon?

Mr. Bonner: I am sorry, I am not familiar with that.

Senator Macnaughton: Or the production of pulp.

Mr. Bonner: The difficulty of getting in on the Japanese end with the consumers of pulp is pretty complicated. I must admit we have not done it so far.

Senator Macnaughton: Under the heading of trade promotion by Canada, we do have the Export Development Corporation. What about the B.C. programs? I understand that British Columbia has been very aggressive in development programs, or trade promotion.

Mr. Bonner: Trade promotion, rather than development programs. There are no programs in the conventional sense of the word in British Columbia. There was enacted a Copper Smelter Bounty Act, of which no one so far has taken advantage. That remains on the statute books in British Columbia and that is about the only exception to my general remarks. However, British Columbia has been very active in encouraging delegations into the Pacific area, notably to Japan. By reason of the extensive Japanese-Canadian-British Columbia trade, British Columbia did, as did Ontario and Quebec, put up a separate pavilion at Expo 70. In 1965, the Government of British Columbia, headed by the premier, did have a six-man official delegation in Japan operating at government level, scouting out opportunities.

Senator Macnaughton: I do not know whether we should ask this question or not, but we are all friends: Do you feel that the federal authorities are serving the needs of the western provinces in their trade activities—promotion activities, vis a vis, the Pacific rim?

Mr. Bonner: It is a general question. To be specific, the Export Development Corporation, by encouraging exports and providing other services, performs an excellent function and has served Canadian business generally and western business specifically in very large measure. I

think it would be useful for a study to be made of the comparative trade incentive programs with which we compete. I happen to be a director of the Canadian Export Association, with which many of you are personally familiar, and at a recent annual meeting of directors the association undertook to update a study in this area which it had done a number of years ago.

I believe the national Government has also interested itself in this problem. It becomes very important that our encouragement of exports in any particular line not fall short of those things which our competitors receive. It is easier to say that then to implement it, and I recognize the limitations of that assertion. Some countries are very aggressive in encouraging their nationals abroad. I think we should have a program of comparability of encouragement wherever we encounter serious trade competition. National programs are excellent as far as they go, but I think it might be useful for your committee to be advised specifically to what extent, if at all, we have a shortfall in comparability. If that shortfall is sufficiently identified I think we should see if we cannot correct it.

Senator Macnaughton: Under the general heading of need for great investment in Japan, as you so well know, it is said that the restrictions are easing a little bit and, to quote, "a foot in the door" or "the door is ajar". Do you feel that that is, in fact, taking place or is it just verbiage?

Mr. Bonner: I have read on the subject that formal barriers have been removed. It is, however, one thing to free up an opportunity and another thing to seize it. The practical difficulty of negotiating with an attractive prospective Japanese partner for the purpose of doing business in Japan is a fascinating and frustrating experience.

Senator Macnaughton: That is the point I was trying to make. Are you in a position to say anything about Japanese investments becoming predominant in the Pacific rim?

Mr. Bonner: Well, I do not have personal knowledge of what has taken place elsewhere. Referring only to our own experience on the west coast, I would say that there is no evidence of any thrusting in by investments. Investment, so far as I have observed it, has been of a very limited nature and, so far as I can judge, completely in accordance with Canadian sensibilities on the subject. I recognize that recently Ambassador Shinichi Kondo has taken a rather broader line in the speech given in Calgary on October 14 last, but the line which he took at that point does not seem to be borne out by previous experience. I think it may be a negotiating point more than a practical one.

Senator Macnaughton: Personally, you are not concerned about the size and increasing amount of Japanese investment in Canada.

Mr. Bonner: No. I think we need a little more of it.

Senator Macnaughton: Or the form it is taking?

Mr. Bonner: I think so far it has been highly acceptable.

Senator Macnaughton: Equity or loans? Either way?

Mr. Bonner: We are capital deficient.

Senator Macnaughton: What is your view of the Five Nation Pacific Basic Economic Co-operative Council? Are we doing enough or is it doing enough?

Mr. Bonner: I have come only recently into practical relationship with that body. I find myself as chairman organizing the May meeting at Vancouver. On the basis of very limited experience it appears to me that there has been a great deal of discussion, and I am not certain at this point what tangible result has come from that discussion. The Canadian delegation suggested at a recent meeting in Honolulu, and I think this has become policy, although I have not so far been advised of it, that the next meeting should concern itself with identifying attainable objectives in the Pacific in, say, the next five or ten years of time. So that the discussion would cease concerning itself with generalities and would get down to cases of what we can really do. As a forum for the exchange of views by responsible people I think it is good. If they can agree as a forum on objectives to be attained, then perhaps greater official action will be required for the attainment of those identifiable objectives.

Senator Macnaughton: Like Senator Carter, I was in Japan a few weeks ago and I had the privilege of attending and seeing the Canadian pavilion at Osaka. On all sides it seemed to b quite evident that we had outdrawn everybody else. Canada, from B.C. to P.Q., made a tremendous impact on the Japanese, and the Canadians who live in Japan were altogether of the view that now was the time for a very forceful drive on the part of Canada against perhaps our chief competitor, Australia which leads me to question again: what new effort do you feel that the Canadian businessman should take? I am coming back to the same question: what technique should he use? Who foots the bill? The cost? How much control should the federal and provincial governments have in their endeavour to underwrite an effort by the Canadian businessman? How do you get Canadians out on the ground seeing for themselves, and who pays?

Mr. Bonner: The most obvious example that I can see immediately of how to go about this is the device of the trade mission. The trade mission requires careful selection; requires ordinarily a minister to be in attendance and to give some leadership in diplomatic encounters and so on; but the trade mission is, however, only the first thrust of the effort. Thereafter, whatever encouragement need be extended at the provincial or national level should be given for business people to go back to exploit the contacts and the acquaintances they have made on the rather more formal tour. I think, for example, Australia would welcome more Canadian interest in their development. It seems paradoxical having said a little while ago in response to one of your questions that we are capital-deficient, Australia is too. Nevertheless there are things that we do in this country that are being done there for the first time and it is a country which is very rich in resources. Our mining people, for example, have

recognized this fact and are present in some degree there. Pulp and paper present opportunities, although the cost of producing pulp in a new plant is something to make you turn pale. It is a matter of identifying opportunities in limited geographical situations and simply going on the ground to explore them, and this in view of our limited physical capacity to be everywhere at once might be best initiated at government level. I am sure that business leaders in the country will respond in a very positive way and collaborate with official efforts in this regard. I do not think we have sufficiently called upon business-government collaboration as a means of achieving national objectives in this country, unlike the Japanese. I think it is time we did so.

Senator Pearson: If our raw materials are mostly what Japan needs and uses, is there any reason why we should have to buy manufactured goods from there? They have use of the raw material and it gives them employment to a greater extent than we are giving to our own people in producing that same raw material.

Mr. Bonner: The Japanese presence in the marketplace has been won by value and acceptance. I don't think anyone has extended any real favours to the Japanese in the expansion of their trade.

Senator Pearson: We don't ask for a return in the selling of their stuff?

Mr. Bonner: Well, I have heard the suggestion made, but it is a free market economy, and price and quality are determining factors. There is some pain between our two countries in the matter of textiles, for example, but that is a problem about which I do not presume to comment. The Japanese have been very respectful of suggested gentlemen's agreements on exports into many countries including our own, and they are aware that a totally free market would perhaps permit them to dominate in a way which would be quickly politically unacceptable, so that they are not insensitive to the question. They have not asked for any unnatural privileges to be extended to them.

Senator Pearson: Speaking about manufacturing, have any business people on the west coast had any thought of getting up their plants in Indonesia or Malaysia and using the labour there?

Mr. Bonner: Yes. There have been ventures explored and I don't know how many have been set up, but I know one or two that have been set up.

Senator Pearson: I would imagine the Australians would move into that area very quickly if we don't do it.

Mr. Bonner: The Australians are in there now in large measure. However, it is a vast region and the market-place of south-east Asia is equated to that of western Europe in dollar volume annually. So there is much opportunity there.

Senator O'Leary: Mr. Bonner, how much importance in this drive for Canadian trade anywhere abroad do you

attach to our Canadian Trade Commissions? Should we increase their status, be more careful in selecting them or concentrate all our efforts on the young gentlemen on the cocktail curcuit?

Mr. Bonner: I think you have carefully led me into a question which is loaded. I think, Senator O'Leary, that you are having a little fun with me. But my personal experience with Canadian Trade Commssioners abroad from some years ago was at the official level, and I found their efforts in assisting provincial promotions abroad to be excellent. I do not presume to know that much about the external affairs commercial consular relationship to come down on either side of the question. However, on the whole I think our people abroad are fundamentally very well qualified. My impression is, however, that they are insufficiently called upon by business and are possibly somewhat removed from the commercial scene on that account.

In my limited experience, which I emphasize, I never found their services to be deficient. Beyond certain initial points, however, business has to be carried by businessmen and cannot look to government.

Senator Connolly (Ottawa West): First of all I wish to say how encouraged I am to hear Mr. Bonner speak the way he does with regard to the importance for the development of commercial relations for Canada in the Pacific of the work which should be done in the private sector.

Aid is one thing, but when it comes to the continuation of aid, the follow-up of it, the emphasis that you have put upon the importance of the private sector, the business community and the investing people being in this operation is something that I would like to hear preached from the housetops all over this country.

We have really two sets of countries in the Pacific rim; this is an over-simplication, but there are the developed countries such as Japan, Australia and the United States, and there are also the very much underdeveloped countries. You illustrated that by reference to the low GNP rate in some South East Asian countries, which does not amount to even a weekly wage here but still represents annual, and average at that, earning per capita.

However, you said or implied that there is a potential opportunity there for Canada, not only in the developed but also in the developing and very much in the underdeveloped countries. What assurance would a Canadian investor have, or you as a Canadian businessman, in going into an underdeveloped country, either alone or in conjunction with some of their own people, and there may be some in some of these countries, to develop an enterprise? Would you be concerned that as their political and social establishments become sophisticated they might say "We do not want this foreign investment here, we do not want this foreign ownership here," and the result would be discouraging for us?

Mr. Bonner: I think that possibility is certainly present in unfamiliar territory. However, the present services of the nationl Government in the Export Development Corporation and in some of the aspects of it which involve essentially insurance of investment abroad or assurance with respect to the payment of contracts abroad, relieved much of this risk from private capital which might be so venturesome as to go into a completely unfamiliar situation such as you describe, with all of the potential of local pull-back.

If in the survey of comparative incentives that I dwelt on some moments ago it were found that our backup for venture capital abroad was a great deal less than that of others, I think this would be the type of catch-up policy we should engage in. In the long run it will be very important that we do have investments abroad and from the standpoint of their long range success, the sooner they get abroad the better.

We are in many respects beginners in foreign investment venture capital placement and in trading with unfamiliar people. So that for a time as we make our trade even more international than it presently is I think it would be a legitimate call on public effort to back up private ventures of this sort.

Senator Connolly (Ottawa West): We are increasing the amount of our foreign investment. Ten years ago it was perhaps \$6 billion, and I think it is \$9 or \$10 billion at the present time. It is growing at that rate. But, the amount of trade...

The Deputy Chairman: To what are you referring, Senator Connolly?

Mr. Bonner: Are you referring to private investment abroad?

Senator Connolly (Ottawa West): Yes, I am referring to private investment abroad. The amount of our trade with the Pacific is perhaps on the lower rung of the ladder. Our trade with the Americans both ways is tremendous. Our trade with Europe and with the United Kingdom is quite large, and our trade with Japan is still a relatively small percentage of the total, but with the rest of the Pacific our trade is rather minimal. Do you think that Canadian foreign investment beamed towards the Pacific can be productive if some priority or some empahsis is given to it by the business community that is interested in developing it?

Mr. Bonner: On the theory that you cannot do everything I think it would be highly desirable to concentrate in a few areas where success is more predictable than in others. For example, Australia is a shining example of opportunity for any capital seeking to locate. It is more difficult to do so in Japan, but certainly on the expectations of their projections a great number of American businesses, for example, have decided they want to be in on the domestic development of Japan, and they are doing so.

There are, comparatively speaking, very many fewer Canadian businesses that can make similar decisions, but I think they should be encouraged to do so in Japan and in Australia.

In short, despite the fact that we have an awful lot to do to develop our own country, I think we need to

diversify our interests as well, because one of the difficulties with Canadian life is that we under-employ our people, and if we are content merely to develop ourselves domestically we will not have the opportunity to send people abroad and do complicated things in strange terrain that other people are doing with great success. I would say with respect to our country that anything that anybody else can do we can do just as well if we decide to do it.

Senator Connolly (Ottawa West): I would like to ask a great many questions, but I shall ask just one more and then I shall be finished. Do you feel, in other words, that so far as the Pacific rim is concerned it would be more desirable to go to the developed countries first because, as I understand it, going into an empire like Mainland China puts you in a different kind of ball game, where the rules are completely different. The philosophy of government is different. The economic situation is completely different from the free market we have here, or that they have in many of the OECD countries. In that case you would be really venturing into unknown territory, would you not?

Mr. Bonner: Yes, and I am not certain that we would have an opportunity to do so in any event. I do not think there are many examples of western business being received in communist countries. Fiat in Russia is one example that comes to mind, and I have immediately run out of examples. So, our opportunity to do business in China in a conventional sense may not be implicit in the diplomatic procedures which are now taking place. Rather than do a difficult thing in unfamiliar terrain, I think we should do a difficult thing where there is some reasonable expectation of a good reception and success.

Senator Carter: Is there a direct relationship between Canadian investment capital and Canadian exports to a country where the capital is invested, or is that a longterm problem?

Mr. Bonner: I do not think there is a relationship or an inference that can be drawn. I think Canadian investment abroad is usually directed towards trade other than back to Canada.

Senator Lang: I just wondered if I might be permitted, Mr. Chairman, to interject a remark, mainly for the record. Originally, it arises out of some statements made by Mr. Bonner in connection with foreign trade missions. It also relates to the question raised by Senator Macnaughton, as to ways and means; and it relates to the free-enterprise concept espoused by Senator Connolly.

I was interested to learn recently that in the United States there are private groups that sponsor trade missions abroad. Generally, they are ex-personnel of government trade departments. They set up a company which, in essence, is a travel agency. They explore an area of potential interest. They then organize the potential businessmen whose interests should lie there and try to get them to form a group. They then make the contacts abroad. The individual members participating pay their

own shot on a normal fare basis, but going on a group basis there is a profit which goes to the promoters of the scheme. Then they go and get, as you suggested, a suitable public figure to head the delegation and who goes at the expense of the group as a whole. This has been eminently successful.

This is an example of private enterprise initiative producing a trade mission abroad that has been much more successful than the government-sponsored trade missions. In a sense the operation is not unlike Peter Dobell's operation, ex-External Affairs, in supplying information and personnel assistance to parliamentary committees.

In a limited way I have tried to encourage some departmental people here in Ottawa to defect on this idea, but I have not had any takers as yet. However, I think it is an area where private enterprise can move in and perform a very real service in terms of trade promotion, at a profit.

The Deputy Chairman: Without mentioning any names, I think we have been doing it in Canada for quite a while.

Senator Lang: I do not know of any specific organizations like the ones I could name in the States.

Senator Macnaughton: We have heard nothing but praise of Japan. I was just going to ask: Are there not any problems the Japanese have? I recall the problems of population, wages and growing demands and the possibility of war, and all sorts of other things. I wanted to raise some time, though we raised it at the last meeting, the fine co-operation between the Government, the banks and business in Japan which, to me, is very exciting and something we should investigate fully in this country. In other words, we would have a little more co-operation.

Mr. Bonner: This phenomenon to which you have just made reference is something which our entire financial community should view with complete objectivity. Japanese industry benefits, of course, from a very high savings rate by the Japanese people. I think it is better than

25 per cent, which I think is the highest rate in the non-communist world. Additionally, industry is heavily levered; anywhere from 15 to 20 per cent is the total hard equity in the venture. I should not say this is typical, but I understand there are many examples in which 15 to 20 per cent is the total equity position, and the balance is provided by domestic credits of a great variety of sources and applications. I can think of very few situations in Canada which would exist with 15 per cent equity. Our banking it notable for its lack of failure as banks, but I am not certain it is equally distinguished for this type of venture. I do not want to repeat an argument I had many years ago on a totally different subject.

Senator Lang: On a long summer afternoon!

Mr. Bonner: However, I do feel that if we are going to set out at any time to emulate that type of 10 to 12 per cent annual increase in our GNP, we will have to do so with different financial equipment than we presently furnish ourselves.

The Deputy Chairman: Honourable senators, I see it is almost six o'clock. I am sure I can say to Mr. Bonner that the level of the questioning and the continuing attendance till this late hour by members of the committee indicates the committee's appreciation and admiration of the assistance you have given us in the task we have set ourselves. I think we can say that the questions have been penetrating, and certainly the answers have been very enlightening. We take note of the bibliographical references you have given us, and I am quite sure our staff will bring them to our attention if they are not already in our dossier.

On behalf of the chairman, who is unavoidly absent, and on behalf of the members of the committee, I extend our sincere thanks to you, Mr. Bonner, for taking the time to come here and giving us this excellent exerpt from your vast experience in this important field.

Mr. Bonner: Thank you.
The committee adjourned.







THIRD SESSION—TWENTY-EIGHTH PARLIAMENT
1970

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 4

JAN 7 1971 *

TUESDAY, NOVEMBER 24, 1970

Respecting
THE PACIFIC AREA

(For list of witnesses-see Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman and

The Honourable Senators:

Macnaughton

McElman Belisle McLean Cameron McNamara Carter Nichol Choquette Connolly (Ottawa West) O'Leary Pearson Croll Quart Eudes Rattenbury Fergusson Robichaud Gouin Sparrow Haig Sullivan Hastings White Laird Yuzyk—(30) Lang

Ex Officio Members: Flynn and Martin (Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970;

With leave of the Senate.

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 17, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Langlois:

That the name of the Honourable Senator McNamara be added to the list of Senators serving on the Standing Senate Committee on Foreign Affairs.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier
Clerk of the Senate

Minutes of Proceedings

Tuesday, November 24, 1970.

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3:00 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Cameron, Carter, Connolly, Croll, Eudes, Fergusson, Grosart (Deputy Chairman), Laird, McElman, McNamara, Quart, Robichaud, Sparrow and Yuzyk—(15).

Present but not of the committee: The Honourable Senators Heath, Lafond, McDonald (Moosomin) and Smith—(4).

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area. Witnesses heard:

Representing ALCAN Aluminium Limited:

Mr. R. A. Gentles, Planning Co-ordinator;

Mr. Karel C. Bala, Assistant Secretary;

Mr. R. F. Allen, Assistant to the Vice-President (Finance) of ALCAN International.

Representing the International Nickel Company of Canada:

Mr. K. H. J. Clarke, Assistant Vice-President.

Representing the Canadian National Committee, Pacific Basin Economic Cooperation Council:

Mr. K. H. J. Clarke, Chairman.

Agreed, that the prepared statements submitted by the respective organizations, be printed as Appendices "A", "B" and "C" to these proceedings.

During his testimony, Mr. Gentles tabled a document respecting certain operations of the Export-Import Bank of the United States. (*Identified as Exhibit "I"*).

The witnesses were thanked by the Chairman.

At $5:22\ \text{p.m.}$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committe.

The Standing Senate Committee on Foreign Affairs Evidence

Ottawa, Tuesday, November 24, 1970.

The Standing Senate Committee on Foreign Affairs met this day at 3 p.m.

Senator John B. Aird (Chaiman) in the Chair.

The Chairman: Honourable senators, I see a quorum present and therefore declare the meeting regularly constituted.

Today it is my very pleasant privilege to welcome Senator Heath to this hearing. Not being a member of this committee, this is the first time she has attended one of our meetings. I am sure I speak on behalf of all the members of the committee when I say that you are most welcome, Senator Heath.

Senator Heath: Thank you, Mr. Chairman.

The Chairman: Our meeting today relates to the activities of two major Canadian corporations with operations in the Pacific region.

Proceeding alphabetically—I thought perhaps that was the safest way of doing it—I plan to call first on the representatives of Alcan Aluminium Ltd., and then the spokesman for the International Nickel Company of Canada.

Alcan is represented here today by Mr. R. A. Gentles, who is Planning Co-ordinator for Alcan Aluminium, the international company. I might say in passing that Mr. Gentles suffers from the disability of having known me for some 35 years. We went to school together in Toronto and we were together in the navy, but I have not seen him for 27 years, so it is a great personal pleasure for me to welcome him here today.

Mr. Gentles is accompanied by a number of officials from the company with special responsibilities for operations in the Pacific region.

Mr. Gentles, would you introduce your colleagues?

Mr. R. A. Gentles, Planning Co-Ordinator, Alcan Aluminium Ltd.: Thank you, Mr. Chairman.

Honourable senators, on my immediate right is Mr. Richard Allen who is in our financial department. Next to him is Dr. Karel C. Bala, who is Assistant Secretary of our parent company, Alcan Aluminium Ltd., and also Vice-President of Alcan Secretariat. Also accompanying me is Mr. Vaillancourt, who is manager of our local office in Ottawa.

The Chairman: Thank you very much.

Also at this time I would like to introduce Mr. Kenneth H. J. Clarke, who is INCO's Assistant Vice-President for Canadian sales. Mr. Clarke will be taking the stand later in the meeting.

All our committee members have received copies of the brief entitled "Alcan in the Pacific." I might comment that it is a substantial document, although not a lengthy one. It is clear from the contents that Alcan has a long-standing and extensive involvement in many countries in the Pacific. For evidence of this, I would simply refer you to the statement on page 3 that in 1969 Alcan was responsible for some 10 per cent of Canada's exports to the Pacific countries, so we are obviously talking this afternoon about a major factor in Canada's whole relationship with the Pacific region.

On behalf of the whole committee, therefore, Mr. Gentles, I would like to thank you for this very informative brief and invite you to make your opening statement.

I would also say that I have asked Senator Carter to lead the questioning. In the interests of equal time, we will try for about one hour and 15 minutes from you and perhaps one hour and 15 minutes, in due course, from Mr. Clarke. So, if you would all be guided by those loose rules of procedure, I would ask Mr. Gentles to proceed. He has indicated that he would like to speak to his brief for about 15 or 20 minutes and then proceed with the questions.

Mr. Gentles: Thank you, Mr. Chairman.

Honourable senators, I can assure you that Alcan is honoured and pleased to be invited to appear before this committee for the second time. As you will recall, we presented a brief when you were studying a similar situation in the Caribbean. Because of the circumstances, I apologize for our not being able to put the desired time and thought into the preparation of the brief that we submitted to Mr. Dobell last Thursday, but we hope that it will give you a fairly good idea of what our commercial relationships are in the Pacific basin countries.

Since each of you have a copy of that brief, I do not think there is much point in my going through it in detail. However, I will try in these, what I hope will be, relatively brief remarks to summarize the highlights in it.

Firstly, at the risk of repeating some facts with which most of you may be familiar, I should like to ensure that you have a reasonably clear picture of who Alcan is. As you may know, Alcan is a Canadian corporation that is publicly owned by some 7,500 preferred shareholders and about 72,000 common shareholders. Almost all of its 1,500,000 convertible shares, and close to 40 per cent of its almost 33,000,000 common shares are held by Canadians. In terms of current market value, the Canadian holding represents just about \$300 million, and I would think it is probably one of the largest equity investments held by Canadians in a public enterprise.

Alcan's consolidated subsidiaries employ some 62,000 people throughout the world, about 19,000 of which are located in Canada, primarily in Quebec, Ontario, and British Columbia.

In 1969 the value of the goods and services purchased by Alcan in Canada was about \$114 million, while payrolls totalled about \$161 million. Federal and provincial taxes amounted to \$64 million, and Canadians received some \$19 million in dividends.

I trust that these figures confirm the impression that you probably already have, namely, that Alcan has provided a substantial contribution to the growth of the Canadian economy.

Altogether Alcan subsidiary and related companies have bauxite holdings in nine countries, and we smelt primary aluminum in nine countries. We fabricate aluminum in 33 countries, and we have sales outlets in more than 100 countries.

Last year our consolidated sales and operating revenues amounted to just about \$1.225 billion. Our subsidiaries and related companies produced about 1,700,000 tons of aluminum. Nearly half of the aluminum that moved across international boundaries was Alcan aluminum, but nevertheless our share of the total market in the Western world is less than 20 per cent. At the end of last year our gross assets had risen to about \$3.1 billion, and our net assets to about \$2 billion.

I record these facts and figures merely in an attempt to indicate to you that apart from being a major participant in the Canadian industrial scene, Alcan is also a very important factor in the international aluminum business. We are truly a multinational company, and the composition of our management reflects this fact. The role we play in Canada is made possible, and, in fact, is completely dependent upon, the success of our international activities.

To get directly to the main purpose of this meeting I shall now try to describe our activities in the Pacific basin countries which are subdivided basically into two principal categories, firstly, the sale of aluminum products principally made in Canada in these countries, and, secondly, our direct investment in aluminum enterprises in those countries.

Last year we sold 158,000 tons of metal or aluminum products in the Pacific basin countries, most of which was in the form of aluminum ingots exported from Canada. To give you some idea of the importance of the Pacific basin as a market to us it might be worth mentioning that in the same year—that is last year—we supplied 399,000 short tons to our largest single market

which was the United States, 191,000 short tons to the United Kingdom, 158,000 short tons—the same amount that we supplied to the Pacific basin countries—to the EEC, and 152,000 short tons were sold here in Canada.

Japan, New Zealand and Hong Kong were our major customers in the Pacific basin area. At this point I think it may be worth emphasizing that for a number of reasons, such as tariff barriers, transportation costs and relatively low added value, there is relatively little movement of aluminum across international boundaries in other than primary ingot form, and in our view this situation is not likely to change much in the future.

Moreover, during the past 15 years the economics of the primary aluminum and smelting business have undergone some rather fundamental changes, particularly in regard to electric power requirements and power costs. These changes have understandably encouraged the establishment of domestic smelters in some of our offshore markets, which had previously imported aluminum from Canada, and this has tended to affect adversely the international competitive situation of Alcan in the international aluminum market.

In some of these situations to encourage domestic smelters there have also been instances of import embargoes and/or relatively high tariffs, and/or government assistance in the form of grants, special financing and tax benefits. Therefore, as far as Alcan's future is concerned with maintaining and hopefully increasing the export of Canadian ingots, it is essential for us to have the support and co-operation of the Canadian Government in minimizing the adverse competitive conditions with which Canadian aluminum is being faced.

To get to the second category of our activities, namely, direct investment, I should mention that Alcan's aluminum industrial investments in the Pacific basin are in Japan, Australia, New Zealand, Malaysia, and Thailand. Our investments in Japan and Australia are by far the largest and, in those terms to us at this moment of time, the most important. By far our largest investment is in Japan, and is in two companies in which we are 50:50 partners. In these two companies our combined share of the gross assets is \$235 million, and of the total sales \$100 million. By 1975 we expect that these participations will increase to about \$500 million and \$200 million respectively with most of the required financing for the increased assets being provided locally in Japan.

In Australia and New Zealand where we have 70 per cent participations in two aluminum companies, and in the case of Australia a 21 per cent share of an alumina company, our share of the combined value of the gross assets is \$US136 million, which we expect to rise to about \$US200 million by 1975. Our respective share of the total sales revenue of these companies is \$US52 million which we think will rise to approximately \$US100 million over the next five years.

In 1969 our parent company received \$3.5 million in dividends and technical fees from our investments in the Pacific basin area. We expect these revenues to increase over the future at least proportionately to the rise in our investment in this area.

With respect to our investments in these and other countries, Alcan has followed a policy of trying to develop as quickly as possible local management, and many of these managers have risen to managerial posts outside of their own countries.

Our subsidiaries and affiliates have access to our group's Canadian research and development facilities in Kingston, Ontario and, Arvida, Quebec, and reciprocally our Canadian affiliates have access to the technological advances that are developed in our foreign subsidiaries.

In regard to ownership and management I might say that in Japan Alcan is involved in a 50:50 partnership in both of its associated companies there, and both we and our Japanese partners have found this relationship to be working very satisfactorily. However, as a general rule we prefer to have management control of our foreign subsidiaries and preferably to retain the right to supply them with their metal requirements, although we do welcome local participation in share ownership.

We believe that the Pacific basin will continue to be an important outlet for Canadian metal, despite the development in some countries of indigenous sources of supply. Also, we believe that the economies and aluminum consumption of the countries in the Pacific basin will probably grow at a faster rate in the future than the rate at which aluminum consumption will increase in some of our more developed markets. Therefore, since we are in a good position to expand our operation in this area, we intend to take advantage of any opportunities to carry out such expansions as they occur.

However, the development of these countries is accompanied, understandably, by changes in the regulations regarding foreign investment. In our opinion it is important, if not essential that the nature of intergovernmental agreements between Canada and these Pacific basin countries change in step with the relative economic development of the countries concerned. As an example, whereas investor confidence in Australia was originally attached to the Commonwealth relationship of that country, the investor must more and more now look to the multi-lateral treaties for such confidence.

Also, as a company we have always been advocates of free trade. In practice, however, we realize that something less than the absolute tends to be the rule rather than the exception. However, to the extent that embargoes or excessive tariff barriers exist or are erected in Pacific basin countries they reduce the opportunities for the export of Alcan metal, or for any other Canadian goods for that matter.

The growth of Canada's exports has been impressive. This can be attributed in no small part to an improvement in the Export Development Corporation's long term financing arrangement as well as to the insurance scheme that is now offered.

We would like to suggest that in light of our experience in using these facilities they could further be improved by providing a rediscount facility for export paper which results from such export transactions, as well as a selective market insurance coverage.

Also, we share the concern of all those engaged in international trade regarding the proposal of the U.S. Treasury to up a new tax-free export incentive through the vehicle of the Domestic International Sales Corporation, sometimes referred to as DISC. This proposal is aimed at giving U.S. exports an advantage over those of other countries and would adversely affect Canada's exports.

When one reflects on these far-reaching developments, the need for closer communication between governments becomes all the more imperative. To some extent this development is inevitable as multi-national corporations continue to expand their spheres of activity and become major factors in the economies of countries other than their original home base.

If Canada decides that it wishes to further encourage the development of Canadian-based multi-national companies, then a favourable environment must be created for the growth of such enterprises. This environment should incorporate new tax regulations to encourage exports and to encourage Canadian-based multi-nationals to raise capital abroad and channel the funds to subsidiaries overseas without attracting Canadian tax.

As one of the world's major trading nations Canada is in a position to play a very active role in fostering intergovernmental co-operation and in helping to shape the progress of its Pacific neighbours, whose fortunes will increasingly affect those of Canada itself.

The Chairman: Thank you very much, Mr. Gentles; you were 15 minutes almost to the second. We will turn to the question period. As I have indicated, Senator Carter will lead the questioning and I will take notice from other senators, I have an indication from Senator Grosart, but I will pick up other names as we go along.

Senator Carter: Mr. Gentles, as I read your brief there seemed to be two dominant notes. One was challenge and the other opportunity. Now, the challenge as I take it, lay in meeting the competition which is going to increase as you foresee it from Australia, New Zealand, and even from the U.S.A. with regard to manufactured products.

In this competition which you foresee what are the main advantages of your competitors? Do they have an advantage in operating expenses, in distance to the markets or import-export incentives in the countries where they are established?

Mr. Gentles: Senator Carter, in the case of the Pacific basin countries we have orbits from which increased competition is developing. One is from Australia and shortly New Zealand will be added. Here you have two companies, Comalco and Alcoa, both with local partnerships, who were able primarily to get their start by some fairly strong assistance in the form of embargo from the Australian Government. They are now to some extent at a logistical advantage for servicing the Pacific basin area, particularly on what I would call an incremental basis.

In other words, they have a fairly good load for their smelters in Australia, with an increment remaining which they can endeavour to sell on the export market. Recently they have been giving us extremely stiff competition from a price standpoint. They have been offering substantial discounts on what we call the published price for an extended period of time, for instance up to two years firm with an extended credit.

In the case of Japan, the Americans are also now becoming very active in that market. Some of their activity again is based on their Australian operations. For instance, I believe that last year Alcoa sold about 15,000 tons from Australia into Japan. This will probably increase to about 30,000 tons by 1971.

Senator Carter: You were established in Australia when Comalco went into New Zealand. Did they beat you there? How was it that you did not get in there?

Mr. Gentles: We had been established in Australia as a fabricator for a great number of years but we were not anxious to get into smelting there because we were basing our metal needs on Alcan metal in Canada. So Alca, apart from Comalco, went into Australia.

We were approached with regard to the Bluff smelter in New Zealand but again we were reluctant to install additional smelting capacity there which would in effect detract from the export markets which we had been building up hopefully for Canadian metal.

Senator Carter: But in the meantime they came in and increased their over capacity, and now they have got to compete.

Mr. Geniles: They have to compete. In New Zealand the Bluff smelter will be coming into production, I believe, late next year or early 1972. It will have about 100,000 tons of metal when it gets up to capacity, of which maybe 15 or 20 per cent will be used locally; the rest will come out on the export market.

Senator Carter: Do these companies have a protected domestic market in New Zealand and Australia?

Mr. Gentles: In Australia they do. In Australia they have a complete embargo which goes through until the end of 1971, when I think it is up for review. In New Zealand we have an undertaking at this moment, because when we went in there in our fabricating investment we received a written undertaking from the government that we could import all our aluminum from Canada until such time as they had their own aluminum smelter in New Zealand, after which time we were then given the right to import 50 per cent of our own requirements for five years.

Senator Carter: I gather the distance is not a big factor at all.

Mr. Gentles: Not a big factor, no.

Senator Carter: Are the export incentives of Australia and New Zealand better than Canada's?

Mr. Gentles: I would like to refer to my colleagues here, but my impression is that apart from the embargo and/or tariffs, which enables you to maintain a fairly

strong healthy domestic price, which in a sense can then be, if you will, a floor from which you can do the incremental export business, there is very little difference.

Senator Carter: It operates almost like a subsidy.

Mr. Gentles: That is right.

Senator Carter: In your paper you mentioned two things that I did not quite understand. You spoke about the rediscount facility for export paper. You also mentioned the need for Canada to take a firm stand with Australia on taxation. Can you elaborate on this?

Mr. Gentles: Yes, I can, sir. Your first reference is to the mention we made of the rediscount facility.

The Chairman: Just for the benefit of the committee, this is on page 13 of the brief, at the bottom of the page.

Mr. Gentles: I thought there might be a question on that reference, so I brought with me a release from the Export-Import Bank of United States, dated November 12, interestingly enough, which was actually after I think we had prepared our brief. In that document they announce that they are now providing to the United Stated financial institutions an increased liquidity for export financing in the form of a discount loan facility. This is all described here. I do not think you would want me to read out all of the announcement.

Senator Carter: No. Perhaps we could table that.

Mr. Gentles: I would be pleased to.
(Document tabled—Identified as Exhibit "1")

The Chairman: Thank you very much. I think perhaps Senator Carter is asking: "what are the mechanics of this procedure?" What do you end up with? What happens to your piece of paper when it gets into your hands?

Mr. Gentles: As I understand it, you get the piece of paper from your export sale; then you go and rediscount it through your bank, who then does it through the, in this case, Export-Import Bank, where it will ultimately end up.

The Chairman: Your bank?

Mr. Gentles: I presume so.

Mr. R. F. Allen, Assistant to Vice-President (Finance), Alcan International Limited: Yes. it is backed up essentially by guarantees, I think, from the Export-Import Bank. To put it simply, I think it just facilitates it as a source of capital, an additional source of capital.

Senator Grosart: Whose money do you get?

Mr. Gentles: In this case, as I understand it, you get your bank's money, who then can go, if they so desire, and discount it with the Export-Import Bank, and ultimately of course the customer presumably pays. I think in this case the Export-Import Bank does not accept the credit risk; I am not sure.

Senator Carter: Why would'nt they? Why do you need the bank as an intermediary here when the Export Credit Corporation is set up to provide that?

Mr. Gentles: I am not sure I can answer that, sir; I just means of contributing financing to international business. One of the problems with all business today, I guess with everybody, is the shortage of working capital. One of the big inducements of selling, unfortunately, in international business markets particularly, is extended credit terms. I think that one of the means countries are adopting for competing in international markets is providing extended credit terms.

Senator Grosart: Would this be a case where the credit term was too long for a bank to handle, and therefore would require a guarantee from the Export Credit Corporation?

Mr. Gentles: I am not sure I can answer that, sir; I just don't know.

Senator Grosart: We have been very interested in this aspect in this committee, to what extent these various government bodies do make a real contribution in money rather than in mere guarantees.

Mr. Gentles: I think there are probably two distinct facets to this. Maybe we are combining them, and perhaps they should not be combined. The first facet is a financing facility in the form of rediscount. The second facet is what I would call credit insurance, which protects the supplier in taking an extended and what he might consider undue risk. What I was referring to in the first instance in our brief was both of these facets. On the one hand there is the rediscount facility, which you might quite well employ if it is available without having recourse in every instance to insurance.

But there are other types of transactions. One that jumps to mind is aluminum cable for electric high power transmission, which is a commodity that is sold in substantial quantities, particularly to some of the more developing countries, quite often with relatively unstable political circumstances, where you might hear of tenders having credit terms of up to three, four and five years. On this type of sale, the only way that I think an industrial company can enter into a transaction of that kind is if it has some type of governmental insurance, under the circumstances I have described. As you know, in Canada we have such an agency that provides this type of insurance. One of the problems, however, is that in the past we have generally found that they will only make it available on what I call a blanket basis, rather than on a selective basis. Where we only want to insure where we think we have a serious risk, they say, "We want to take the good with the bad", and this gets a little bit costly.

Senator Laird: Do they charge you for that insurance?

Mr. Gentles: Oh, yes. You mean the insurance through CGIC, or something like that? Oh yes, there is a fee for that.

Senator Connolly (Ottawa West): Is there any element of subsidy in it?

Mr. Gentles: I guess to the extent that they are really picking up a risk that we are taking on.

Senator Connolly (Ottawa West): But only in respect of risk?

Mr. Gentles: Only risk.

Senator Connolly (Ottawa West): Not in respect of rate.

Mr. Gentles: Oh no.

Senator Connolly (Ottawa West): Not in respect of terms?

Mr. Gentles: I cannot say I am too knowledgeable on insurance, but my impression is that the fees I have heard charged are, I think, one half of one per cent. This is a fee I have heard mentioned in one instance. I think this is a fairly good and reasonable fee for that type of service, but I am no judge of that.

Senator Grosart: Are you disappointed that the official Government insurance has now been withdrawn in relation to political instability? You mentioned the phrase.

Mr. Gentles: To be honest with you, honourable senator, the bulk of our business has been in the primary side of the business and this is our bread and butter. This is what really is important to us and this type of business really does not get too much involved in that type of transaction. There have been occasions in the past, for instance in years gone by when we used to do some business in the Middle East where this was a factor.

Senator Grosart: And in mainland China?

Mr. Gentles: Yes, but we have never been too concerned about that, because generally business with regard to primary aluminum is done on a relatively short-term basis.

Senator McNamara: What is the period of this extended credit?

Mr. Gentles: It varies with types of products. In the case of a conductor, which I referred to, I believe I heard where there was a tender which went close to five years. That was insured I think by the French and it was a French government facility. I am not 100 per cent sure on that, but I can find out for you.

Senator McNamara: I would like to know something about Australia, because I heard that they were very reluctant to go beyond the commercial 90 days and that they now wanted three years. I wonder if there is a limit on this.

Mr. Gentles: We are only in competition in the export market with Australian goods in the form of primary aluminum. They are not, to my knowledge, getting any government type of insurance on their terms. They are offering what we think are fairly extended terms in the trade and that is 180 days.

Senator Cameron: Did I understand you to say that when you got this piece of paper for the transaction that you took it to your own bank and the bank in turn went to the export?

Mr. Gentles: This is how I understood this particular facility and how the Export-Import Plan is intended to function.

The Chairman: This is in the United States, Senator Cameron.

Senator Cameron: All I was trying to get at is that it would not be possible to go directly to the export-import bank.

Mr. Gentles: I think they probably want the commercial bank in between them and the person who is asking for the facility.

The Chairman: I think there is a time lag that becomes operative at this stage of the game and the insertion of the commercial bank at this stage certainly would overcome the time lag. I presume there would be a reference from the commercial bank to the export-import bank.

Senator Cameron: Wouldn't this have an effect of increasing the cost?

The Chairman: Yes, I think it does increase the cost, but on the other hand the increased costs may be overcome by whatever the loss was in the time lag by not having the funds in hand. I think this is the point in the United States whereby the company gains capital at the time of its request.

Senator Grosart: If I may, in view of the importance and interest in this question of capital funding in the export markets and other areas, to suggest that it would be advisable to have the committee call some responsible officials who could explain exactly what the present status of Government is in regard to capital assistance and insurance in the export business. We are never quite clear.

The Chairman: Not only should we call a witness on this, but I think we should have it in memorandum form. Unfortunately, I think you were absent at the hearing we had with the Minister at which time he had one of his colleagues here from the Export Development Corporation and he did endeavour to answer this question. I am not so sure, having read the transcript, that it is very clear to me. I agree with your conclusion that we should have it on the record by way of a memorandum.

Senator McNamara: On the question of insurance is my understanding correct that if you want to insure you have to insure over the whole world market and you cannot pick selective markets and get insurance on that. In other words you have to take a general policy?

Mr. Gentles: No, Senator McNamara. If I gave that impression it is incorrect. What you have to do is insure for an area. It gets down to a geographic basis. According to my understanding you cannot just go and ask for insurance in order to cover a particular order.

Senator McNamara: Isn't this a limitation on your ability to take chances, because it makes your insurance that much more costly? It is my understanding that there actually never has been a loss, but actually the extra premiums which were picked up by reliable people have offset any losses they took. I question the value of this policy because a business like yours has to insure 100 per cent and if you have to get into a new and developing market it makes the insurance expensive.

The Chairman: Do you have an example of an area?

Mr. Geniles: I can remember going back a few years ago when we were very anxious to compete for some business in Egypt. The only way we could see whereby we could adjust to the risks that were associated with that particular business at that time was through getting insurance and we were unable to do so because of this blanket policy. On another occasion in Ghana we finally ended up doing it through a facility in the UK. The company in Ghana fabricated aluminum roofing and we had to ship aluminum sheet coil from which they made this roofing. The only way that we found we could get it insured was by shipping it from the UK instead of to Canada. I think we did find that it was not possible under the Canadian provisions of the insurance. I believe it was our own subsidiary which knocked us out.

Senator McNamara: The first illustration of a country you spoke about kind of weakens my argument and strengthens the position of the Government.

Senator Grosart: How do we maintain the total high risk area criterion in view of the Government's response to the objection to areas being labelled high risk areas? Surely there is contradiction if the Government says that you must include a whole area as a high risk area when the Government itself has repudiated this concept.

The Chairman: I think it would be interesting to see an example of the perimeters of a high risk area. Australia presumably is not such an area and in Indonesia you would have a different set of problems. Where are the lines drawn, geographically?

Mr. Gentles: In this particular area we are not as involved in supplying manufactured goods as other exporters in Canada therefore this is probably not as big a problem to us as it would be to some of the other countries in that category.

Senator Carter: I will just ask one more question with regard to where you said Canada should take a firm stand with Australia, Will you elaborate on that point?

Mr. Gentles: We felt that possibly the Government might have been able to give us more support or have taken a stronger stand in the early days of the negotiations between Australia and Canada with respect to the embargo that was going on with regard to aluminum. This was just a further point. We are already into some tax problems in Australia because we do not have any reciprocal treaties. I referred there to this participation we have in an Australian Alumina Company in which we

have a 21 per cent interest and I believe now that there is a controversey between Canada and Australia re our tax liability connected with that participation.

Senator Grosart: Mr. Gentles, may I refer you to page 3 of the brief, speaking of Japan, particularly. You refer to "operating through national subsidiaries" and then again to a 50-50 partnership. What are the political restrictions on your own equity participation in these partnerships?

Mr. Gentles: In Japan we are restricted to 50-50 partnership. We cannot have greater than 50-50.

Senator Grosart: Can you give us a rough idea of the perimeters of this restriction? Does it include all exports in the same general category as primary aluminum?

Mr. Gentles: I am not sure if I understand the question correctly, but I am saying that we cannot hold a greater equity participation in a Japanese aluminum company than 50 per cent.

Senator Grosart: Yes; and does this apply, say, to steel, or is that an exception?

Dr. Karel C. Bala, Assistant Secretary Alcan Aluminium Limited: There are various categories in various industries. The Japanese Government just introduced aluminum as a field in which foreigners can invest up to 50 per cent. However, ALCAN was an exception since 1952 and we were operating under a special Japanese law which permitted us to invest up to 50 per cent in our main subsidiary, Nippon Light Metal Company Limited. In our other company, that is, Toyo Aluminium KK, which is a foil mill, we were 50 per cent partners before the war. Our shares were sequestrated during the war and then returned to us to the extent we were shareholders before the war, that is, to 50 per cent. As far as steel is concerned, I am not quite sure, but I think that steel also is a field in which foreigners now can invest up to 50 per cent. I do not think that any foreign company would by very much induced to invest in Japanese steel mills. The main field which was introduced now are motor car companies because this is the field where the American motor car producers tried very hard to enter Japan and they are permitted now to invest up to 50 per cent.

Senator Grosart: What I am getting at, Mr. Chairman, is to try to find out whether the Japanese are using these equity participation restrictions as a form of tariff.

Dr. Bala: Not in the form of tariff, but very much as a limitation of foreign participation and foreign influence on Japanese industry.

Senator Grosart: But this can be a way of raising a tariff. For example, if you cannot participate, you are not going to be very much interested in exporting there. Are they using it this way?

Dr. Bala: Aluminum industry in Japan is not an exporting industry, it is an industry the products of which are used mainly in Japan. But, say, the motor car industry is an industry which exports to a great extent.

Senator Grosart: Perhaps I am not making my question clear. Let me try again. On the same page, you say that you like to retain management control and control of the imports of aluminum. Let us say that the Japanese say you cannot have 50-50 participation, what happens?

Mr. Gentles: In the case of Japan, I do not know whether it would have a great impact on our relationship or not, because with the 50-50 we do not have management control. We do not strive to manage the company, that is all done by our partners. They buy their aluminum from us, when they need to buy import aluminum. But we have no prior right other than the fact that because we are partners they give us that privilege of being the first to try and compete to supply it.

Senator Grosart: Excuse me, but you say that Alcan prefers to retain. What is the significance of "prefers"?

Mr. Gentles: I think we also mentioned, Senator Grosart, that Japan is an exception. Generally speaking, in our foreign subsidiaries throughout the world we prefer to have management control. Japan is definitely an exception to that preference.

Senator Grosart: But you would still prefer it, in Japan?

Mr. Gentles: To be honest with you, sir—this is an interesting question, I am sure you have probably visited Japan...

Senator Grosart: Yes.

Mr. Gentles: And I am sure you have had experience of doing business with Japan. I personally would not like to try to run a company in Japan, because the whole way of doing business is so different to anything to which I have been exposed. I think this is true of most westerners. I think it would be very difficult to manage a Japanese company effectively.

Senator Grosart: Would this apply, would you say, to all the non-English speaking countries in the Pacific?

Mr. Gentles: We are operating a company in Malaya. I do not think we encounter the same type of problem there.

Dr. Bala: And Thailand.

Mr. Gentles: And in Thailand. We have a trading company in Hong Kong. We have not hesitated in other areas. In the context that I have been mentioning or describing, I think Japan is unique in that area.

The Chairman: May I ask a supplementary question, Senator Grosart? I would like to refer you, Mr. Gentles, to page 7. Perhaps the committee would look at the second last paragraph there. The sentence begins:

Should the Japanese aluminum markets develop as currently projected, NKK has flexible plans which would involve substantial capital expenditures over the next five years, to be mainly financed locally.

I think this brings Senator Grosart's question right into focus. I presume that is not by way of equity, I presume that is by way of Japanese banks. Am I right?

Mr. Gentles: That is right.

Dr. Bala: And by help of the Japanese Government, since the NKK main expansion is on the Hokkaido Island, at Tomakomai, which is considered a distressed area, and the company receives loans at a preferred rate of interest.

The Chairman: I see.

Senator Connolly: What was that last phrase—receives loans and...

Dr. Bala: At a preferred rate of interest.

Senator Connolly: Subsidized by government?

Dr. Bala: By the Japanese Government.

Senator Connolly: So there is a subsidy then on the question of rate.

Mr. Gentles: That is right, in Japan, in a "distressed area".

Senator Connolly: It is in their discretion to say what is "distressed" and what is not?

Dr. Bala: The Japanese Government is quite concerned with overpopulation of the southern part of the main island of Honshu and they are trying to promote industrial activities in the outlying areas. The Hokkaido Island, which is the northernmost island of Japan, is one of the main areas, because it is underpopulated and very little industrialized, and therefore our subsidiary decided to build their new plant there and count on the help of the Japanese Government, which provides loans at a low rate of interest, and other facilities.

Senator Grosart: I think I understood you to say that aluminum ingots were the main item of international trade in this field. Could you possibly break down by broad percentages the whole process starting from bauxite, for example, and going right on through? I would like a rough idea of what percentage of the money and the employment stays in Canada.

Mr. Gentles: You start with the raw material, which is out of the mine, called bauxite. Bauxite for making aluminum has a value to the person who wants to treat it into metal in its crude form, just mined, and what we call dried, of, say, in the neighbourhood of between \$6 or \$7 a ton. Then you take roughly two tons of that bauxite to make one ton of alumina; the market price for alumina is somewhere around \$60 a ton. Then you take two tons of alumina and you make one ton of aluminum, and the price of aluminum is \$570 a ton.

Senator Grosart: That is the ingot.

Mr. Gentles: That is the ingot, yes.

That last price is on a delivered basis, whereas the two other prices were probably on an f.o.b. basis. Senator Grosart: What happens to it from there? Let us say it is in Japan and it has cost them \$570 a ton.

Mr. Gentles: Then you can take that ingot and you can make it into the large—

Senator Grosart: Hardware?

Mr. Gentles: What I am trying to say is that into large categories of fabricated products, the main ones of which, speaking from a tonnage standpoint, are sheet, extrusions, and cable. Generally speaking, to transform the ingot into sheet we are talking, say, of an uplift over the ingot price of 15 cents a pound, roughly, as being the difference between the price of the ingot and the price of what the bread and butter products of sheet will go for. Fifteen to 20 cents a pound. It is in that range.

Senator Grosart: What does that make it per ton?

Mr. Gentles: That is about \$300. Roughly \$300 to \$350 a ton is not a bad figure.

Senator Cameron: That would be roughly \$900 per rolled sheet?

Mr. Gentles: Roughly. Sometimes it is a little less and sometimes it is more, depending on the nature of the product. At the present time the industry is realizing little benefit of scale, because even though we can put in big mills to do a scale job, the orders come in in small lots and our distribution system has not really been brought up to keep up with the type of mills we can put in for the type of tonnage consumption we are capable of doing, except for a new commodity of a kind of sheet. We are now seeing some of the benefits of scale as it applies to that particular product, but it is a very low-priced product. It is somewhere around \$150 a ton over the ingot.

Senator Grosart: Would you go on a bit from there and give us a few guesses as to what the per ton selling cost might be in, say, foil or pots and pans? I just want to get a rough idea.

Mr. Geniles: You realize, Senator, that if my colleagues back in Montreal hear these figures they will probably shoot me.

Senator Grosart: It is an impossible question, Mr. Gentles, I know, but just roughly.

Mr. Gentles: In foil you are talking about a very great variety of products, because you can start with what we call white foil, which is the heavy type of foil that you sell to what we call a "converter" who wants to make Christmas paper with it or wants to make household foil. Or you can take that white foil in its present form and make milk bottle caps out of it. That white foil, which is the simplest type of foil and therefore the least costly to make—you see, I am running into quantity problems.

Senator Grosart: You do not really have to answer the question.

Mr. Gentles: I am going to get out of whack with some of the prices I am giving you on sheet. Generally, you sell foil in large quantities and you will find that there is not a large difference between the price at which the large customers are buying white foil and, for example, the medium-size customers are buying certain simple types of sheet products. I would say, roughly, that the white foil is in about the \$800 to \$900 bracket. I would say that when you start converting it you start adding a great deal of value to it and you start going up to over the \$1,000 mark. You get into the thinner foil; you get into the thin foil with perhaps eight colours on it.

The Chairman: Perhaps, Senator Grosart, in order to protect Mr. Gentles from his superiors in Montreal, the committee would be in agreement with having Mr. Gentles submit a memorandum on this matter which could be made part of the committee's records and which we could then examine in due course.

Mr. Gentles: If that would suffice, Mr. Chairman, the easiest course for me to follow would be to give you a price list of these types of products.

Senator Grosart: Mr. Gentles, what I really want to find out is, first of all, what percentage of the total financial return from a ton remains in Canada and, secondly, how far you are going in your own participation in these companies beyond the \$570 mark. What are your plans? Are you really going to try to move into the whole Japanese market so that you are participating in every stage of the process onward from that \$570 per ton figure?

Mr. Gentles: Senator Grosart, this is a very hard question to answer. We would prefer to sell ingot, because, ideally, up until now, historically, if one could sell the ingot that he made at the prices that were general in the marketplace he could then make a good return out of it. However, competitive circumstances have forced us and other companies to integrate forward. So that, in effect, in order to secure our outlets for our ingot we are making an investment which, in fact to a degree, is break even at best, in a great many cases, and to some extent is even subsidized on the return that we get from the ingot, the smelting portion of our investment, and/for back to the alumina and bauxite side.

Senator Grosart: So that these subsidiary arrangements you have in Japan and elsewhere are largely to obtain a posture in the market and to protect your own marketing interests?

Mr. Gentles: So far as integrating forward is concerned that is a reasonable generalization.

Senator Grosart: You are not worried about Jamaica deciding to integrate forward?

Mr. Gentles: Well, they are talking about it now. They are talking about putting in a smelter and then they are going to have to find an outlet for that metal. Whoever has that outlet is going to have to make sure somebody does not take it away from him.

Senator Cameron: Mr. Gentles, I was very interested in your suggestion that in your management you always use local management as much as possible. I am not thinking of places like Australia or New Zealand, but of places like Thailand and Malaysia. What is your process of management training? Do you train them there or do you bring them back here or do you do something of both?

Mr. Gentles: We do both, and it will vary from time to time depending on the circumstances. In the case of Malaya we started off with a relatively small sheet mill and not a very complicated fabricating operation. We first of all put in some expatriates. They could well have been Canadians, but they were not Malaysians, at any rate, and they have been there for about eight years.

Mr. Bala: Yes, I think it is about eight years, and we have two expatriates, or rather, there are three expatriates, one Indian and two non-Malaysians. But all the others are Malaysians, either Malayans or local Chinese and Indians.

Senator Cameron: Would the non-Malaysians be Japanese?

Mr. Bala: No. In Malaya they would be Indian.

Senator Cameron: The reason I asked this question is not so much in relation to your own company's operation, but thinking of developing countries generally and how we develop managerial skills necessary to make viable companies operate.

Mr. Gentles: We are very proud of the efforts we have made and the results achieved in this respect in India. There we have a very, very large fully integrated company from the mine right through to semi-fabricated products including foil. I do not know what the total number of employees is there, but it must be in the vicinity of 4.000.

Mr. Bala: It is about 6,000 and we have two expatriates, one the managing director and the other the chief financial officer.

Senator Cameron: And you have been operating there for how long?

Mr. Bala: We have been operating there since the war.

Mr. Geniles: This is an evolution over that period of time, and we have very competent local management.

Senator Cameron: In other words, this might be a good place to direct people who are looking for developed skills in less developed countries.

Senator Laird: This might be a good place to interject this question. These non-Canadians who have been trained in your organization, have you by any chance taken any of them in permanently to the head office here in Canada?

Mr. Gentles: It is pretty hard to say when anybody is permanent in our head office. I have often thought I was, but I am not sure about that.

Senator Laird: But they are there?

Mr. Gentles: They are there and I think I am right in saying that among that 1,200 to 1,500 in Montreal we have non-Canadians who have been there for many years.

Senator Laird: Are there any of them in high executive positions?

Mr. Gentles: Let me think about that for a moment. There is none at this moment in our very senior management. One of the things we notice is that we bring nationals from other countries over here for some form of training or other, and when they get here, they like it—and you have probably encountered this situation in connection with the Caribbean as well—and the next thing you know they are applying for citizenship and they are here to stay.

The Chairman: I would like to direct your attention, Mr. Gentles, to page 13 and the quite provocative statement you make in the second-last paragraph where you say:

Canada should not ignore the probability that China will ultimately seek development capital in Europe and North America and that Canada could be the conduit for such capital.

I should like to hear your comments on that.

Senator Grosart: How can we get in on that?

Mr. Gentles: I don't know if I have the answer. I think it is an interesting question.

The Chairman: It is your statement.

Mr. Gentles: I think when we made it we had in mind this type of thing; we find that as a company we tend to be at a disadvantage when we look at our total tax payment in relation to our competition. This is a cost of doing business, as you are well aware, the same as any other cost, and what you end up with for the shareholder is the measure.

Now in the case of the United States at this moment they pay a maximum of 48 per cent, I think, and if in foreign trade or external trade they go through a Western Hemisphere vehicle, I think they can get that figure down to 34 per cent. It was this type of vehicle that I think we had vaguely in mind when we made this statement. Now is there some way that Canada could set up an arrangement somewhere along the lines of the Western Hemisphere approach that has been used south of the border to accomplish this type of end? I don't know the answer, but I think it is well worth pondering.

Senator Grosart: Are you suggesting that you might be permitted by domestic law to retain a larger percentage of profit made in the export market than in the domestic market?

Mr. Gentles: I would prefer, obviously, to be able to keep just the same degree of profit in both and come out on the same basis as my competition. All I am saying is

we are meeting competition where apparently in the case of the western Hemisphere situation, the situation you describe is what happens.

Senator Grosart: You are suggesting a particular tax treatment for companies in the export market? Mind you, I am not against you.

Mr. Gentles: Rather than suggesting, I think I am pointing out a disadvantage that we are operating under, which I think is affecting our ability to compete. We are paying a significantly higher tax than most of our competitors.

The Chairman: Therefore at the present time you do not think that Canada will be a conduit?

Mr. Gentles: Not unless we can develop some means or some vehicle for accomplishing the end, either by bringing down the overall or by setting up a situation, as you say, which means you are going to pay less tax on certain types of business than on others.

Senator Laird: You mean something like the old export business corporation under the Income Tax Act?

 $\mbox{Mr. Gentles:}\ \mbox{I am sorry, senator, I am not familiar with that.}$

Senator Laird: Perhaps Mr. Allen is.

Mr. Allen: I am sorry, senator, I am from England originally.

Senator Grosart: Do I understand you correctly, Mr. Gentles, that our relatively high rate of corporate taxation does and certainly will act as a deterrent to the investment of foreign capital in Canadian firms in the export market?

Mr. Gentles: That is right. By the way, Mr. Chairman, I believe the man in charge of our tax affairs in the company is preparing a presentation.

Mr. Allen: I think he is making it through the Canadian Export Association.

Mr. Gentles: I think he is going to go into detail on this. He has not finalized it yet, but I understand he has some specific ideas as to how this can be accomplished. If it is of any interest to you, we can forward you a copy.

Senator Grosart: Are some of your subsidiaries in Japan, for example, exporting to other Pacific rim countries?

Mr. Gentles: Yes.

Mr. Bala: Very little, senator, but one of our subsidiaries, the foil subsidiary is now participating in another small foil mill in Korea to the extent of about 50 per cent.

Senator Carter: Dealing with the other theme of your presentation, the opportunity and the challenge of assisting in the development of countries around this area,

could you give the committee your comments on what Canada possibly might do, more than we are doing, to facilitate companies like this in helping these underdeveloped countries to get going?

Mr. Gentles: Senator, I don't know how many specific ideas we have on that. Certainly we try where we see an opportunity to put a small facility into these countries such as Malaya and Thailand. And Indonesia, I am sure, is going to be a country which is going to come into its own sooner rather than later. This is one and a most direct method. If we can assist them in developing some of their own skills and techniques, this also helps in that area. I do not know whether I can give you any more positive idea at this time.

Senator Grosart: What is the rate of corporate tax you are paying on your subsidiaries in Japan or Australia?

Dr. Bala: In Japan our companies pay 52 per cent effective corporate tax rate.

Senator Grosart: Then you are better off in Canada.

Dr. Bala: Our Japanese effective tax rate is 52 per cent.

The Chairman: Do you want the figure for Australia as well?

Senator Grosart: Yes, Australia.

Mr. Allen: Australia is 46 per cent.

Senator Grosart: Then Japanese businessmen have the same complaint as you have with respect to the conduit.

Mr. Gentles: Yes, but, then again, my understanding—and Dr. Bala will correct me if I am wrong—is that the Government takes a very active role in all the offshore work of the Japanese industry. Is that correct?

Dr. Bala: Yes.

Senator Grosart: Do they give you tax incentives for retained profits or profits re-invested?

Dr. Bala: They do, but our subsidiary has very little offshore activity because mostly their activities are concentrated in Japan, they are producing in Japan and they are also selling in Japan.

Mr. Gentles: Senator Grosart is not so interested in the circumstances related to our particular subsidiary. I think he is asking about the general approach of Japanese industry and government in this area.

Dr. Bala: Japanese industry is given tremendous help by the government, both in credits and income taxes and in organizing their exports. I think there is no country that gives more help to their exporters than Japan. Unfortunately, we do not know too much about it because we are importing into Japan and our subsidiaries do not export any considerable amount.

Senator Grosart: I was not speaking so much of their exporting activities, but the question I was asking is: Are

there any tax incentives to retain profits in the Japanese subsidiary, or to re-invest profits? We are always trying to find out here the secret of Japan's fantastic success.

Dr. Bala: It is not done directly, but indirectly by various government organizations that are involved in exporting. It is not done directly, so far as I know, but I am not an expert on Japanese exports.

Mr. Gentles: I do not know whether it is pertinent or not, but the Japanese government through the...

Dr. Bala: . . . the Ministry of Industry and Trade . . .

Mr. Gentles: ... has a tremendous influence on Japanese industry. When they say they want to do something, it is done.

Dr. Bala: Of course, the secrets of the Japanese economy are many, but one is the organization of their trade which is done by the so-called trading companies, which is a factor absolutely specific to Japan and which consists of huge organizations that both export from and import into Japan, but which also give credit for all operations that are done in Japan, so this is a very different thing from any other country. The Japanese exporter who has a firm contract gets practically all his money from these trading companies which, in turn, get their credit from the big banks, which, in turn again, are guaranteed by the Japanese government.

The Chairman: I think in the interests of equal time, honourable senators, we should move on to INCO.

In conclusion, Mr. Gentles, I would like to thank you and your colleagues very much. It has been a great pleasure to have you here today and to have you, in your usual fashion, supply the material you have.

 ${\it Mr.}$ Gentles: Thank you, Mr. Chairman and honourable senators.

The Chairman: Honourable senators, we have with us now Mr. Clarke.

Senator Grosart: We should point out that Mr. Clarke was President of the Stratford Shakespearian Festival, in its heyday.

The Chairman: I was certainly familiar with that fact, and I think it is most appropriate to have it recorded.

I should say at the outset that Mr. Clarke is wearing two hats here today. In addition to representing the International Nickel Company, Mr. Clarke is Chairman of the Canadian National Committee of the Pacific Basin Economic Cooperation Council. He has prepared a separate statement relating to that organization, and all members have received copies. In other words, I believe you all have before you two briefs, one for Inco and the other for the PBECC.

Perhaps, Mr. Clarke, you would prefer that we question you first in your Inco capacity, and then get into a further discussion of PBECC later in the meeting.

I would like to thank you for both briefs, which I understand were prepared at very short notice, and for coming to this meeting today.

We shall follow the procedure you observed we followed with Alcan: after you have made a few introductory remarks and have spoken to your brief, I shall ask Senator Robichaud to lead the questioning.

Mr. K. H. J. Clarke, Assistant Vice-President, The International Nickel Company of Canada Limited, and Chairman, Canadian National Committee, Pacific Basin Economic Cooperation Council: Mr. Chairman, thank you very much for the honour of being asked to speak to you today. I am greatly indebted also to the fact that in the "Industrial ABC's" "A" stands for "Alcan" and "I" for Inco. It was very interesting to have the opportunity to sit on the sidelines and listen to Alcan's presentation. Also the fact that all the hard questions have already been answered by Alcan makes it even better.

I too have a personal relationship with this committee. Senator Grosart was a neighbour of mine in the country for many years and has been a close personal friend for 25 years, and I am very happy particularly to be here with him.

Senator Grosart: That is not going to help you!

Mr. Clarke: I know. My sentence will not be lightened!

The Alcan representatives mentioned a few facts with regard to their company, and I thought it might be of interest to the senators to hear a little of our company.

At the end of last year we had a total of 34,321 employees in 18 countries, of which 24,434 were in Canada, 4,591 in the United Kingdom, 3,893 in the United States and 403 in other countries.

At the end of last year we had 4,459 employees who had been with the company for 25 years or more. The number of shareholders of record at that time was 84,219, and that was an increase of over 8,600 during the year. Our records indicate that 58 per cent of them have addresses in Canada, 39 per cent in the United States, and 3 per cent elsewhere. The Canadian residents held 31 per cent of the shares, the United States residents 55 per cent, and residents of other countries 14 per cent. Numerically the 48,609 shareholders with addresses in Canada—an increase of 7,454—was the highest on record in the company for any year end.

There are about 75 million shares issued at a current price of approximately \$(Can)45, which amounts to \$3.3 billion-odd, and with roughly 30 per cent owned by Canadians there is a very substantial investment of about \$1 billion by Canadians in The International Nickel Company. In 1970 for the first time the companie's sales will exceed \$1 billion.

I am very happy to have this opportunity of giving you some idea of what we are doing in the Pacific. The policy paper that was brought out on the Pacific was of extreme interest. There is no question about the fact that for geographic, economic and historic reasons, the future of Canada is closely related to this area. In fact, the degree to which this overall region achieves peace and stability, in the face of the many forces of change, will fundamentally influence the pattern of world history. The meaningful proposals set forth in the policy paper implicitly

recognize the link between a proper development of the region's vast economic potential—people, natural resources, and under-populated areas—and the establishment of the social justice and quality of life upon which peace and stability are based.

This economic growth has already started, partly through the initiatives taken by the various countries themselves, but to a considerable extent through the efforts of Canadian and other overseas companies. We feel that we have been a leader in this respect.

I would like to outline for you a little later some of the circumstances that led us to participate in the Pacific region, but before doing so I should say that we are anxious to indicate that much of the Pacific area is stable, and is being steadily developed. Some of the countries are among the most politically stable in the world, and here I have in mind Australia, New Zealand, and New Caledonia as well as Japan, which is the second largest economic power in the non-communist world. I shall speak a little later on about our position in Japan, because Japan is of great interest and concern to us.

As you know, up until the present time Canada has been the world's major source of nickel obtained from sulphide ores in Ontario and Manitoba. The dramatic growth in nickel demand over recent years, however, has led producers and would-be producers to look toward the development of other ore sources. The most common of these are the lateritic ores. It is estimated that 80 per cent of the world's known nickel reserves are contained in these lateritic ores, which are located in tropical or subtropical areas. There is no question about the fact that the great development in the future lies in the development of these ore deposits.

The most important ones are in the countries of the Pacific basin—Indonesia, the Philippines, Australia and, of course, New Caledonia, where there are tremendous reserves. It has been estimated that by 1975 New Caledonia could be producing 25 per cent of the world's nickel.

Canada's production is expected to account for about one-half of the non-communist world nickel supply in 1975, or about one-third of the entire world's nickel supply. This does not necessarily mean that production is going to decrease in Canada. It is the relative effect of bringing these lateritic ores into production.

We have long recognized that if we are going to remain a major factor in the industry we must successfully participate in developing the laterites. Our own studies have demonstrated that the laterites can be profitably developed, and that they will be highly competitive with production from sulphide ores. In addition to the vast amount of research we have conducted on the treatment of these ores, we have projects underway in many areas of the Pacific. In the French territory of New Caledonia we are a partner with a holding company of French interests known as COFIMPAC. We recently presented a feasibility study to our partners based on the production of 100 million pounds of nickel a year in the form of carbonyl pellets. This project will represent an investment of \$481 million, and it could reach full pro-

duction by 1975. Although our French partners have considered it favourably, we have not yet received definite approval.

In Indonesia we have a subsidiary company which is investigating nickel deposits on a 25,000-square mile area in the island of Sulawesi. The results thus far have been encouraging so far as ore is concerned, and we have shipped large bulk samples to our Port Colborne pilot plant for testing. We hope to be able to talk to the Indonesian Government next year about a big project there.

We are also working in the British Solomon Islands protectorate.

In Australia, which has been very much in the news with regard to nickel of late, we have been working for a long, long period of time. Our major effort, together with Broken Hill, our partner there, is in the Kalgoorlie region of Western Australia. These efforts led to a discovery of nickel sulphide mineralization which is of interest, and we have started to put down a 1,000 foot shaft that will permit exploration at depth. This is indicative of the huge investment necessary just to explore these properties. we are also working on a lateritic deposit in Australia.

An example of an apparently non-successful investment is found in another property which we investigated with Southwestern Mining Limited, and our feasibility study of that indicates that it is not an economic project at this time.

We are very much interested in Australia because it is a very fine place in which to operate, and we have high hopes there for the future.

I should like to indicate that in addition to the ore potential a very major factor in considering these huge investments in places like Australia, New Zealand and New Caledonia, is that they are dependent upon the favourable conditions that the governments of these countries bring about to encourage outside investment. Their policies, while logically preserving conformity to local conditions, recognize the risks involved in the vast investments that these projects entail, as well as the difficulties presented in building docks, towns, and infrastructure of all kinds. The investment climate—and this is a very important thing that has received much consideration in the Pacific Basin Economic Co-operation Council, and other organizations—while varying considerably in detail is comparable to that climate in Canada, which has proven very satisfactory over the long run, and which has contributed greatly to Canada's development of its mineral industry.

Indonesia, which has, in our estimation, vast resources, is also becoming quite stable politically, and we have high hopes that we shall be able to be in operation in Indonesia in the not too distant future.

However, the key to the Pacific undoubtedly is Japan. The industrial expansion of that country has been phenomenal. Their consumption of nickel in 1965 was 60 million pounds and this year it is estimated to be 190 million pounds. By 1975 it is estimated that Japan will be

consuming over 300 million pounds of nickel. Although Japan has no ores, it imports ores from New Caledonia, Indonesia, Australia, and Canada. They have had a very carefully protected market by means of quotas and tariffs, and the result is that the Japanese nickel industry has developed very rapidly.

It is the opinion of most people that Japan will continue to develop internally the bulk of her requirements. Canada is participating in the country's market to the extent of only 10 per cent or 20 million pounds. In order to attempt to obtain a foothold in this extremely large market we joined with a Japanese company to form the Tokyo Nickel Company, which is a relatively small organization, to produce nickel oxide 75, which is in direct competition with some of the products produced in Japan.

We ship to this plant a refined nickel sulphide product from which we make this oxide. We have been supplying them to the extent of 10 million pounds a year. Nickel has been in very short supply during the last three or four years and by co-operation with the Ontario Government, we have been able to arrange that we will increase our feed by an additional rate of 15 million pounds yearly.

Senator Carter: Is that 15 million pounds in addition to the 10 million pounds?

Mr. Clarke: Yes. This is after very serious consideration by the Ontario cabinet of all the facts submitted and the problems with regard to the development of the market. We feel that this is a very imaginative and flexible policy on their part, which will certainly help us broaden our foothold in the Japanese nickel industry.

By making it possible to participate on a larger scale, not only are we given an opportunity to develop more business, but the Japanese are given cause to rethink their participation in other nickel producing operations.

Another example of our efforts to strengthen our presence in Japan is the fact that we are very active in market development. We have technical market development offices, staffed almost exclusively with locals, highly trained metallurgical engineers, in Canada, the United States, the United Kingdom, the European Common Market countries and just about every other major industrialized country in the world. We have a very competent group of people in Japan, who are endeavouring to develop the general market in the utilization of nickel.

Recently Japan abolished the import quotas on nickel. The duty now is 15 per cent, which will be reduced to the extent of 1 per cent per year for five years. There is no indication that there would be any reduction beyond the 10 per cent level, but it is a much better arrangement than when they just had quotas.

It is clear to us that the development of the nickel potential in the developing countries in the Pacific area offers a great challenge to the Canadian mining industry. That industry possesses a very broad background of technical, financial and marketing know-how. It is also an

opportunity to implement creatively and with mutual benefit the very admirable goals contained in the foreign policy paper.

There is no doubt that there will be a positive Canadian presence in all these areas to which I have referred. I am confident that the same understanding and flexibility shown by the federal and provincial governments will continue and that this presence is going to be very profitable for Canada.

Honourable senators, I am also the chairman of the Canadian National Committee on the Pacific Basin Economic Cooperation Council. This organization is an informal one of senior business executives from Australia, Canada, Japan, New Zealand and the United States. It operates entirely under private auspices. Its objects are to strengthen economic and business relationships among the five member nations and to generate greater economic and social progress in the Asian developing countries of the Pacific basin.

This organization is relatively new, its first meeting being held in Australia in May 1968. All members then agreed on the basic objectives. There are many aspects of the total inter-relationships between these countries, but they were particularly concerned with the expansion of trade, the economic aspects, the exchange of capital and industrial technology, the promotion of tourism, exchange of economic information and promotion of cultural and scientific pursuits.

However, I think more importantly the attitude of Japan and Australia, who are really the founding nations of the organization, which is an outgrowth of the Australian-Japanese businessmen's committee, was that the developing countries would be in a position to benefit from the investment and technological know-how of the more advanced countries.

From the point of view of Canada and the United States joining the organization, unlike New Zealand which was almost automatically in from the start, the important factor was the awareness of the tremendous potential of the Pacific basin countries, both as suppliers of industrial raw materials and as tremendously growing markets. If the per capita incomes of these various countries grow as the area becomes more industrialized, it can provide one of the great new markets of the world.

The first president of the Pacific Basin Council was Shigeo Nagano, who is Chairman of Nippon Steel Company. Our PBECC meeting was in Kyoto this year and I presented a paper on Canada-Japan trade at the Japanese-Canadian Businessmen's Meeting in Tokyo. Mr. Nagano is an example of why I developed a very healthy respect for the Japanese. He is chief officer of what is now said to be the biggest steel mill in the world; he is the chairman of the Japanese Chamber of Commerce; he was Vice-President of Expo; he has just been appointed chairman of the committee which will take over Okinawa; he has his black belt in judo and he is 69 years old—a remarkable man. The Japanese are very good businessmen and tough competitors. The current president is the Honourable Sir Edward Warren of Australia.

An important point as far as Canada is concerned is the fact that the next International meeting of PBECC will be held in Vancouver in May 1971. There are five international standing committees, one each in the fields of economic development and trade, natural resources, human resources, transportation and tourism. These committees have international chairmen and each country is represented. The modus operandi is that between meetings these committees correspond with each other and attempt to develop programs which can be implemented.

There are two kinds of programs, those which have to be implemented by governments and those which can be implemented by the normal trade channels. It has been our experience that we have had exceedingly fine cooperation from the Canadian Government. I think the experiences of the other countries have been the same. Before these international meetings we have conferences here in Ottawa with all the various government departments dealing with matters that will be involved in the discussions, and at the conclusion of the meetings we have another briefing session. The national committee is sponsored by the Canadian Manufacturers' Association and the Canadian Chamber of Commerce. There is a very wide representation of company presidents and vice presidents of all kinds-resource industries, manufacturers, banks, transportation companies, consulting engineers, a large group of interested people.

We feel that these meetings bring about an active and understanding rapport with some of the leading people in these countries, and informal discussions certainly have led to a much better understanding of the positions of these various countries. Although it is a young organization, some of us feel it has made a contribution, and will make a much greater one, and it deserves our support and that of the Government. Thank you very much.

The Chairman: Thank you very much, Mr. Clarke, for speaking to both your briefs. As I indicated, we will now go on to the question period, and I will ask Senator Robichaud if he will be kind enough to lead.

Senator Robichaud: Mr. Clarke, from reading your brief, and particularly from listening to your statement this afternoon, it is evident that your activities in the Pacific region raise many issues that are quite similar to those referred to us by the previous witness from Alcan. In fact, so similar are your problems that I could almost direct to you word for word the questions that were directed to Mr. Gentles by the members of this committee. However, I will try to ask at least a few questions that are somewhat different.

You stated in your brief that to operate successfully companies must take account of the needs and policies of their own governments as well as those of the Canadian authorities. Further on, after mentioning the special waivers given by the Ontario government to meet the Japanese regulations, you said that you would like to suggest that the willingness to accommodate specific circumstances such as those in Japan by these governments is to the long range advantage of Canada. My question is: does this statement imply that eventually these countries,

particularly Japan, will permit access to Canadian exports at a higher level of processing or manufacturing?

Mr. Clarke: The question as I understand it is: will co-operation at this stage, not interfering with the deliveries to them of the raw materials they need, encourage them by indicating this co-operation, will encourage them to liberalize their trade and investment posture, which has been one of considerable concern to all people? I think that is true. In our discussions in Tokyo we pointed this out to the Japanese, and of course a lot of other people have been doing this. We pointed out that it is very important to us to have access to their markets, that non-tariff barriers in particular should be watched very carefully, and eliminated to whatever extent possible. Our feeling is that the freer the trade the better it is for all concerned. I sincerely believe this to be true.

Senator Robichaud: So you really believe that there is a long range trend towards a more liberal policy on the part of those countries?

Mr. Clarke: I think they recognize the advantages that accrue to them by more liberal policies. In other words, they have a very substantial percentage of their entire economy tied up in the export field, such as we have ourselves. It is really only by mutual trade that the long term advantages accrue to both partners. I think they recognize this.

Senator Robichaud: You also referred to the favourable conditions with which these countries have encouraged outside investments. Could you elaborate on that and give us some details of these conditions that have been incentives for, say, a company like INCO to invest in those countries?

Mr. Clarke: Of course, conditions vary tremendously all over the place, but the basic concern is the ability to eventually repatriate earnings and some part of the investment made. There is no object in investing large quantities of money in what you would consider to be unstable situations, where the chances are that you might not get your money back, let alone any profit that might accrue from it. I think the most important consideration is freedom of movement of funds, and the necessarily favourable climate to make investments satisfactory and relatively safe.

Senator Robichaud: From your experience, could you tell us if INCO has utilized the export financing and insurance services of the Export Development Corporation; if so, has it been of any advantage to your company; and have you any suggestions for improving this program?

Mr. Clarke: No, I have not any suggestions really. I am not familiar with the details, and to my knowledge we have not yet availed ourselves of the facility.

Senator Robichaud: Has INCO utilized these facilities?

Mr. Clarke: Not to my knowledge. However, you must recognize that we are talking about very large invest-

ments that have not yet been made. The \$481 million we are speaking about has not yet been authorized.

Senator Robichaud: It has not been fully approved as yet?

Mr. Clarke: Most of our investments up to this point have been considerable, but mostly in the form of exploration.

The Chairman: Is it a fair question as a supplementary to ask the size, the proportion, of INCO's share in the \$481 million?

Mr. Clarke: It has been published. It is 60 per cent of the cost, 40 per cent of the ownership.

The Chairman: 60 per cent of the cost would take you to nearly \$300 million.

Mr. Clarke: It is going to cost a total of \$481 million, including infrastructure, working capital, and interest during construction, of which we will finance 60 per cent and our partners 40 per cent.

The Chairman: The reason I ask the question, of course, is that this is a sizeable sum of money, and it might very well occur to you that if the Export Development Corporation does show some signs of providing a useful contribution, and in fact the rediscount privileges that we discussed with the previous witnesses come into effect, this might be an avenue for International Nickel.

Mr. Clarke: Thank you, senator. I will certainly raise the question with the proper people.

Senator Robichaud: At the beginning of your brief you gave us some figures of the number of employees that INCO has in 18 different countries, and also the Canadian participation. I wonder if you could supply this committee at a later date with similar figures to those we have had from Alcan showing the direct investment in the Pacific region. We do not need them now, but would it be possible to supply our committee with these figures?

Mr. Clarke: Yes, I shall try to get them.

Senator Robichaud: Thank you.

Senator Laird: I want to go to a new topic, which was not covered by the previous witness. I want to ask you this, Mr. Clarke, in your dual role. Have you an opinion whether or not our recognition of China is likely to improve our trade relations with that country.

Mr. Clarke: The best I have read on that subject is the Foreign Trade magazine put out by the Department of Industry, Trade and Commerce. I think that spells out the position more clearly than I could. I presume you have read that issue?

Senator Laird: Yes, we have that distributed to us. You know, of course, that Russia and China just finished signing a trade agreement so would it not appear that perhaps the Chinese will be actually operating if not by political considerations by the straight hard trading propositions when it comes to dealing with any country?

Mr. Clarke: Certainly their trade with Russia got down to a pretty low level of \$28 million which is negligible considering those tremendous areas. I would presume China recognizes the fact that she is going to gain tremendously by increased trade with the outside world.

Senator Robichaud: Was it down from originally \$500 million?

Mr. Clarke: I believe so.

Senator Laird: Is INCO interested in increasing its trade with China? Have you a specific interest in that country?

Mr. Clarke: As I mentioned, nickel has been in very short supply during the last three or four years, probably aggravated by our strikes in 1966 and last year when we were closed for four months. As we come into longer supply we are going to be interested in markets anywhere.

The philosophy of the company is to increase production parallel with an increase in markets. That is why we spend millions of dollars every year in market development, research and all such related activities. You will perhaps recall that in 1921 the market for nickel was depressed and it was at that period that Mr. Stanley, who was president and chairman at the time, began a tremendous activity of research and market development which really resulted by 1929 in the market being greater than it was at the peak of World War I. From this period came the developments of alloy and stainless steels, and the high nickel alloys. At the moment nickel is used in some 3,000 alloys. It has a very broad industrial base now. Our philosophy is that we are very anxious to develop markets as we increase production.

Senator Laird: Including China?

Mr. Clarke: Any place, really.

Senator McNamara: Are there any restrictions on the sale of nickel to China.

Mr. Clarke: I don't believe so. Only the restrictions of a normal commercial nature.

Senator McNamara: I was wondering if it could be used for armaments and things like that.

Mr. Clarke: I don't think their steel industry is very large. I think their consumption is relatively small, because China is not a highly industrialized nation such as Russia or any of the big countries.

Senator Carter: Mr. Clarke, the technological progress with respect to processing oxides is becoming a thing of the future. Will that affect very much our Canadian production which is based on sulphides?

Mr. Clarke: No, it is supplementary to it. The point is that the lateritics were always considered very refractory. For one thing, you cannot concentrate them which is of tremendous importance because you have to ship ore containing say, 2 per cent nickel instead of concentrates.

This is the way the ore is shipped from New Caledonia to Japan. The technology of treating lateritic ores in place economically is a big factor. These ores occur in far away places where, as I mentioned, infrastructure has to be put in place and you have problems of all kinds in putting new organizations into operation. This will supplement nickel from the Canadian sulphides. They are not likely to shrink in volume, but the new requirements of the world are going to have to come largely from these lateritic deposits.

Senator Carter: Are we leading in the technology and processing? Can we protect our place in the world market and world competition?

Mr. Clarke: That is exactly what we are trying to do. We think we are well in the forefront of the technology of treatment of these ores. We have been experimenting with these ores for years trying to utilize our processes for their treatment. We have every reason to believe that we are in the forefront, but we recognize that we have to get located there and start treating these ores in order to maintain our position as a major factor in the market.

Senator Carter: Does this French company have any expertise in ore?

Mr. Clarke: It is all our technical expertise.

Senator Carter: Where does the non-Communist world get their nickel supplies?

Mr. Clarke: The Communist ones?

Senator Carter: The Communist ones.

Mr. Clarke: Cuba is in the nickel business. Cuba has lateritic ores and they have a chemical leach process which has been in operation for some considerable period of time. The USSR produces a fair amount of nickel, certainly sufficient for their own requirements.

Senator Carter: Are those oxides?

Mr. Clarke: Mostly sulphides. You perhaps will recall the Petsamo mine which we were developing in northern Finland which became Russian after one of the Finnish-Russian wars. That was sulphide ore.

Senator Carter: You have a set-up with the Japanese company and this is another 50-50 partnership. Alcan told us that they found this very satisfactory and in fact they would prefer not to manage a Japanese company because the whole process is so different. Is that your experience too?

Mr. Clarke: Yes.

Senator Grosart: First of all, is it 50-50?

Mr. Clarke: I am not exactly sure but I believe it is 40%.

Senator Grosart: What about the other subsidiaries?

Mr. Clarke: It is not a very large organization nor a very big investment.

Senator Grosart: In COFIMPEC you own 40 per cent.

Mr. Clarke: Ves

Senator Grosart: Is all of the rest owned by the French?

Mr. Clarke: The French companies, yes.

Senator Grosart: There is no domestic equity in that?

Mr. Clarke: No, French companies.

The Chairman: You will appreciate that Mr. Clarke very well knows that New Caledonia is like a municipality of France and not in the terms of a colony at all. They are represented in Paris.

Senator Grosart: Some people in New Caledonia would dispute that they are not a colony.

Senator Carter: You make a big point in your brief and I think the Alcan did too in their brief and that is the importance of stability of governments for investment. Even in stable countries such as France there is beginning to develop some concern about multinational companies, because they become almost a law in themselves and no one government can control them. Do you see that as a factor developing in the future?

Mr. Clarke: That is a pretty big question, multinational companies. They had a meeting of the International Chamber of Commerce in Istanbul last year in which everybody in the world seemed to be there trying to figure the answer to that question. I cannot presume to answer it. It seems to me that any company, multinational or otherwise serves its own best business interests by living up to all the rules and regulations and aspirations of the host country. I do not see how you can operate in any other way, than to employ as many nationals as you can and to train as many as you can to take leadership positions. That is certainly what we do.

Senator Carter: All companies like multinational companies allege, some of them, that they do not live up to these lofty ideals.

Mr. Clarke: I think we do. We certainly try.

Senator Carter: I am not casting any aspersions, but I am raising a general proposition. This stability factor to which you attach such importance in your brief—I was just wondering how valid that was, because even in stable countries you may run into trouble in the future.

Mr. Clarke: I do not know. "Trouble" is a big word, which covers a lot of things. I do not think that anywhere you do not run into trouble of some sort. That is what the mining business is all about—overcoming troubles and problems and difficulties of all kinds. The main thing is that you want to feel that if you put your money and know-how and marketing expertise and other things into the development of a property, that you can expect that it is not going to be expropriated and that you will be able to realize some profit for your trouble and investment.

Senator Carter: You mentioned in your brief something about some sort of international agreement for security of investment. What had you got in mind?

Mr. Clarke: In that respect, there was a great deal of discussion at the Kyoto meeting and I think the Japanese are probably as much interested as anyone else in this matter. They realize they are going to be investing large amounts of money themselves all over the place-Australia, Canada, Indonesia, Taiwan, throughout the Pacific basin and Latin America. They feel, too, that it is important to them that their investments have some sort of protection. This may be in the form of insurance guarantees or all kinds of things. It is a very broad question. What is happening with the Japanese is that they are investing a lot of money in secondary industries, going to areas where labour is more plentiful, because they are now beginning to suffer from a labour shortage. Their wage rates are going up. I think their labour increase this year was 16 per cent and their productivity, maybe about 14 per cent. So, for the first time their productivity is not as high as their labour rate increase. They are now making very substantial investments at all stages of processing throughout the Pacific and I think they feel that they would like to see some guarantees themselves.

The Chairman: In effect, in the statement which is on page 5 of your second brief, it does not refer to military security in any way?

Mr. Clarke: No.

The Chairman: I think this is a very important question that Senator Carter has raised. It goes back to the questioning that we had with ALCAN and the Export Development Corporation, and insurance against political risks and so on. You say "some form of international security against expropriation". Those are very generic words, too. Those are very difficult words, particularly "expropriation". Do you have any further comment on that?

Mr. Clarke: Not really. So much has been said about it, it is hard to add anything. It is one of the main concerns of all these people who gather in international meetings, regardless of where it is, whether it is the Pacific basin or the International Chamber of Commerce or any of these groups. It is the one thing which is beginning to stand out, that you have huge corporations, multinational corporations, making investments in many areas of the world and they hope for what they consider to be reasonable political climates, so that the investments can be protected and developed. I think that is about the least they can expect, frankly.

Senator Grosart: Actually, it is not a new problem, it has been a problem ever since the industrial revolution.

The Chairman: I do not think it is a new problem but I think it is the primary one, perhaps, at this time. It is the emergent problem.

Mr. Clarke: It is getting bigger, because after all the only way the developing nations are going to start to

close the technological gap at all is by industrialization and the development of whatever their natural resources happen to be. With the population explosion the way it is, they are breeding people faster than they can build their GNP per capita. The only way it can be done is by industrialization. And the only way that can be done, because they do not have enough capital formation internally in most of these places, is by somebody putting in the money; and they do not like to put it in unless they feel it is going to be protected.

Senator Grosart: What I am saying is that that is what the British Empire was all about.

Mr. Clarke: But they had a little different attitude.

Senator Grosart: They sent the troops in. The Americans sent the marines in. It is nothing new.

Mr. Clarke: That is not the same solution.

Senator Grosari: It is not the same solution, but the problem is not a new one. I do not know why everyone wants to put so much emphasis on it. Britain was all over the world and had investments all over the world under much more unstable political conditions than we have today.

Senator Robichaud: This is the question I had in mind to ask. My main reason for asking it is that I have just returned from Chile. Having been able to see what the situation is in that country, I thought that this was one of the main reasons for making this statement, because security against expropriation, where companies with large investment were going to be nationalized and expropriated, I think we had there probably the most recent example of such action by a foreign government.

Senator Grosart: A few American companies feel the same way about Canada right now.

Senator Robichaud: Maybe not to the same extent. I am not so sure.

Senator Grosart: I was interested in the agreement of the Ontario Government to relax some of its restrictions to allow you to export that extra 15 million tons. What are these restrictions that they relaxed? I understand that they had to do with attempting to get more processing in Ontario.

Mr. Clarke: I believe they have an act under which you have to apply for permits for anything other than fully processed material.

Senator Grosart: Does this apply to primary products, mining?

Mr. Clarke: I believe it also applies to forest products. I think that is where it started.

Senator Grosart: Going back about 25 or 30 years, it was brought in then, and the forestry people, or the pulp and paper people, were given 10 years to reach a certain point of domestic processing.

Mr. Clarke: I believe that it is under section 106 of the Mining Act.

Senator Grosart: Would you read it?

Mr. Clarke: I do not have it here. I have just a reference.

Senator Grosart: It requires an export permit, generally speaking, for primary industries?

Mr. Clarke: In this particular instance, this material is almost fully refined, anyway. There is only one more minor step that you would take to convert it into the same marketable oxide. It still has to have some of the sulphur in it so that it can be fully processed. That is a relatively minor step. I think a half of one per cent might be the added labour value. It is very small. In other words it is not really as if it were non-processed material.

Senator Grosart: Then why would this restriction apply?

Mr. Clarke: I guess it just happens to be taken in the act. It is not in its final fullyy marketable state. It is not exactly the same as would be directly usable in the steel industry.

Senator Grosart: May I ask you the same question that I asked the previous witness? What percentage of the actual processing is done in Canada? It is hard to get a yardstick but, let us say, in dollars, per ton, again.

Mr. Clarke: The basic refined nickel product, that is the material which is used directly by the steel industry, is currently \$1.33. It varies in accordance with the form, but basically we can say it is \$1.33.

Senator Grosart: For what?

Mr. Clarke: Per pound. There is a dilution factor in nickel which does not exist to the same degree in aluminum or copper. In aluminum and copper these two materials constitute to a much larger extent the value of the finished product. Nickel is used to strengthen in relatively small amounts steel and copper and other metals. In the case of alloy steel, 1 per cent could be the nickel content. Therefore, the dilution factor of the value of the nickel is something which makes it entirely different from aluminum wire and cable or copper products. Now, stainless steel, which is the major utilization of nickel, has in its best form 8 per cent nickel. Higher nickel alloys such as those used in jet blades, and hightemperature uses might run as high as 30 per cent, but for the most part the large volume of nickel is consumed in relatively minor quantities. The value of, say, stainless steel could be in the neighbourhood of maybe 80 cents a pound, but the value of the nickel in it would constitute only 8 per cent of the total weight. So it is not something which you can compare directly. The final finished product, which is utilized all over the world, is refined nickel. From that point on it has to be melted or in some way processed further. So there is no way in which you can get a direct relationship. The big utilization of labour and supplies and power, and all of these costs, is in the

production of the refined product, all of which is done in Canada.

Senator Grosart: So that you are exporting practically a finished product.

Mr. Clarke: Yes

Senator Grosart: Therefore your subsidiary interests are all in exploration and mining, are they?

Mr. Clarke: With the exception of two rolling mills, one in Birmingham, England, which is a wholly-owned subsidiary and another in Huntington, West Virginia, which is also a wholly-owned subsidiary. These two organizations take nickel from us and melt it and make it into very highly-specialized alloys, of which there are hundreds of varieties and hundreds of shapes and sizes.

Senator Grosart: Is there any such activity such as rolling mills in the Pacific rim?

Mr. Clarke: Japan produces almost all these alloys. They have a very sophisticated steel and alloy industry, as you know, and can produce just about anything they want to. But we do not have such a facility in the Pacific basin countries.

Senator Grosart: You have spoken of the marvellous record of International Nickel in innovating new uses. Where is most of that research done?

Mr. Clarke: There are different kinds of research. We have very extensive research operations. The major one here in Canada is process research which is our facility at Sheridan Park. All the process research for the entire company is done at Sheridan Park outside Oakville.

Our product research—that is, our alloy steel research and that sort of thing—is done in two laboratories. One is in New Jersey and the other is in Birmingham, England. The rolling mills themselves do a certain amount of indigenous research for themselves, acting just like another customer, as, for example, a steel mill would do research. But those are our three basic research projects with the exception of our pilot plant research. That is a

very extensive and very large facility at Port Colborne, Ontario.

Senator Grosart: What type of research would you do in attempting, as you are, to increase your share of the Japanese market? Would you do any process research there on the type of ores that the Japanese have?

Mr. Clarke: No, we bring those ores into Port Colborne and we do all of the process research there. If it is lab research, we do it at Sheridan Park. If it is pilot plant research, as is the case with Indonesian ores, we would do that at Port Colborne.

Senator Grosari: I suppose market research would be done on the spot.

Mr. Clarke: It is a combination of things. The market research is not just the research you do yourself, which is trying to find new alloys or new inventions or improve old ones, but is also the research which you do with your customer, which is to help your customer. You give him the latest technology, you know about and he can give you plenty of information in return. It is not a one-way street by any stretch of the imagination. But a lot of that sort of thing is done by the market development engineers that I spoke of right with the companies involved.

Senator Grosari: It is rather interesting that in both submissions you speak very highly of the co-operation you have had from the federal and provincial governments. That is rather unusual evidence for us to have in a Senate committee. Are you an exception in that respect? Do you get on better with governments than others do?

Mr. Clarke: I would certainly hope not, but it is a possibility.

Senator Grosart: On that high and optimistic note I will pass, Mr. Chairman.

The Chairman: Well, sir, on behalf of the committee let me thank you very much indeed.

The committee adjourned.

APPENDIX "A"

ALCAN IN THE PACIFIC

Brief prepared for The Standing Senate Committee on Foreign Affairs, Ottawa November 1970

1. Alcan Aluminium Limited

Alcan Aluminium Limited (Alcan) is a Canadian company with headquarters in Montreal engaged, through subsidiary and related companies, in all phases of the aluminum business on an international scale. The Company is independent of, and operates in competition with, all other major world aluminum producers.

Alcan is publicly owned. It has some 7,500 preferred shareholders and about 72,000 common shareholders, mainly in Canada and the United States. Almost all of its 1,5 million convertible preferred shares and close to 40 percent of its 32.9 million outstanding common shares are held in Canada as of 31 March 1970, representing, in terms of market value, one of the largest investments by the Canadian public in any industrial enterprise. The remaining 60% of the Alcan common shares are held in the U.S.A. and other countries.

The Company's consolidated subsidiaries employ about 62,000 persons around the world, of which 19,000 are in Canada. In 1969 the value of goods and services purchased by Alcan in Canada was about Can.\$114 million, payrolls in Canada totalled \$161 million, taxes paid to Federal and Provincial Governments amounted to \$64 million and dividends paid to Canadiarstotalled some \$19 million.

Alcan's subsidiary and related companies have battite holdings in nine countries, smelt primary aluminum in nine, fabricate aluminum in 33 and have sales outlets in more than 100. Management is international in composition, consistent with the Company's world-wide activities.

In 1969 Alcan's subsidiary and related companies produced:

Primary aluminum - 1,692,900 tons. Of this quantity, 968,700 tons were produced in Canada.

Semi-fabricated and finished products - 885,000 tons.

Alumina, or aluminum oxide, the powdery substance from which aluminum is extracted - 4,400,000 tons.

Bauxite, the ore from which alumina is refined - 7,800,000 tons.

Calcined bauxite, for uses other than metal production - 644.000 tons.

Nearly half the aluminum which moved in 1969 across the international boundaries of the free world was Alcan metal.

Consolidated sales and operating revenues in 1969 amounted to a record $U.S.\,\$1,227$ million.

Culminating a decade of substantial investment in and aggressive development of world-wide aluminum fabricating operations primarily to protect out: Canadian ingot outlets, consolidated sales of fabricated products, at 621,400 tons, in 1969 were more than triple the tonnage sold in 1958 and accounted for just under two-thirds of total aluminum product dollar sales.

At year end, gross assets had risen to U.S.\$3,115 million, net assets to U.S.\$2,044 million.

The Company's most important single market in 1969 was, as in the previous seven years, the United States, which accounted for 399,000 tons of the Company's aluminum product sales. The Canadian market accounted for 152,000 tons, the U.K. for 191,000 tons, the Common Market countries for 158,000 tons, and the Pacific Basin countries also for 158,000 tons.

2. Alcan in the Pacific

(i) Introduction

The Alcan Group has conducted business in the Pacific area since the 1930's, the first direct investment being made in Japan in 1931, followed by an investment in Australia in 1939. Today, the Alcan Group's share of the assets of those operations in which it has an ownership amounts to U.S.\$392 million, and corresponding sales revenues total U.S.\$238 million. By 1975, it is currently estimated that the share of gross assets and sales revenues of these operations could increase to U.S.\$737 million and U.S. \$424 million respectively, with a large part of this expansion taking place in Japan and Australia.

For comparison with total Group operations, the Pacific area in 1969 absorbed about 15% of all Alcan metal exported from Canada, and accounted for approximately 10% of Alcan's consolidated sales revenues and over 5% of dividend revenues from world-wide subsidiaries and affiliates. Alcan was responsible for some 10% of Canada's exports to the Pacific countries in 1969. By any of these measurements, the Pacific Basin is composed of a very important group of countries to Alcan.

The tables and map included in this presentation provide a summary reference for Alcan's direct investments in and export sales to the Pacific nations, as well as indicating dividend revenues and service fees received from Group companies in these countries.

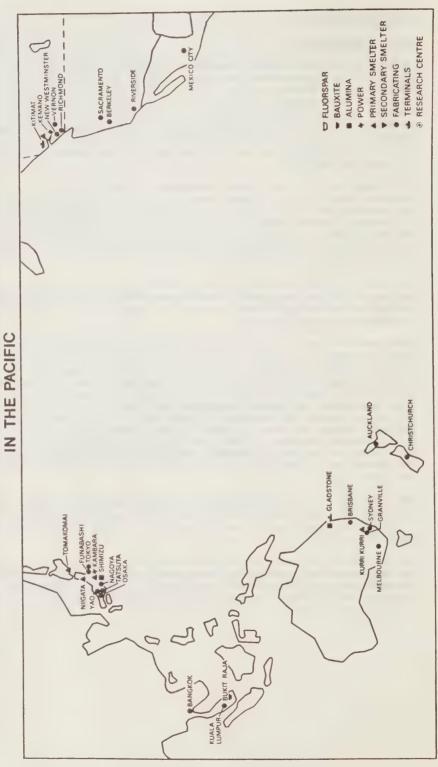
Alcan has followed a policy of operating through national subsidiaries in these countries, and of hiring, training and developing a local management group as rapidly as possible. All of our operating companies in the Pacific area are managed almost entirely by local personnel; many of these employees have reached managerial positions in other than their native countries. These management development programmes are dependent upon frequent reciprocal visits between the personnel of these companies and headquarters in Montreal, which also serve to broaden mutual understanding between Canada and the Pacific nations. Alcan's subsidiaries and affiliates in the Pacific have access to the Group's Canadian research facilities located at Kingston and Arvida, and in addition draw on the world-wide technical experience of the Alcan Group.

With the important exception of Japan, where we are well satisfied with our 50/50 partnerships, Alcan welcomes local equity participation but prefers to retain management control and if possible the right to supply metal requirements.

We believe that the Pacific Basin will continue to be an important outlet for Canadian metal, despite the development in some countries of indigenous sources of supply. Since Alcan is in a sound position to expand its operations in the Pacific Basin countries, we plan to continue to participate in their growth.

ALCAN ALUMINIUM LIMITED

PLANT LOCATIONS OF PRINCIPAL OPERATING SUBSIDIARIES AND RELATED COMPANIES



Alcan Group Direct Investment in the Pacific

Sales Revenue U.S. \$ million 1970-(est.)-1975 tage shareholding)	185	07	80	15	4	m	m	45	38	111	424
Sales U.S. 1970-(85	18	70	7	2	Ħ	m	24	18	10	238
Total Assets Sales Revenue U.S. \$ million U.S. \$ million 1970-(est.)-1975 1970-(est.)-1975 (Scaled down to percentage shareholding)	485	35	6	9	m	2	ന	88	95	11	737
Tot U.S. 1970-	215	23	00	4	2	1	m	63	65	00	392
	Fully Integrated	Aluminum Froduction Aluminum Fabrication	Imports of Aluminum largely from Canada to Japan	Imports of Aluminum from Canada to Southeast Asia	Aluminum Fabrication	Aluminum Fabrication	Bauxite Mining	Aluminum Smelting and Fabrication	Alumina Production	Aluminum Fabrication	
Alcan % share-holding	50	50	100	100	51	20	75	70	21	70	U. S. \$ million
Company	Nippon Light Metal Co. Ltd.	Toyo Aluminium K.K.	Alcan Asia Ltd.	Alcan Southeast Asia Ltd.	Alcan Malaysia Berhad	Alcan Thai Co. Ltd.	Southeast Asia Bauxites Ltd.	Alcan Australia Ltd.	Queensland Alumina Ltd.	Alcan New Zealand Ltd.	Totals: U. S
Country	Japan	Japan	Japan	Hong Kong	Malaysia	Thailand	Malaysia	Australia	Australia	New Zealand	

Alcan's Exports from Canada to Pacific Countries, 1969.

Country	Association	Product	U.S.\$ million	Short Tons
Japan	Affiliates	Ingot	19.3	41.5
Japan	Third Parties	11	42.5	91.8
Hong Kong	Third Parties	89	1.3	7.2
Malaysia	Subsidiary	#1	1.1	2.2
Thailand	Affiliate	**	0.7	1.3
New Zealand	Subsidiary	11	4.6	8.3
New Zealand	Third Parties	11	0.1	0.1
Other	Third Parties	11	0.5	1.1
			70.1	153.5
New Zealand	Affiliate	Rod	2.5	4.0
			72.6	157.5

Dividends and Fees Received by Alcan from Pacific Area in 1969

U.S.\$ 000

Dividends	Fees	Tota1
2,270	260	2,530
600	-	600
44	360	404
-	25	25
2,914	645	3,559
	2,270 600 44	2,270 260 600 - 44 360 - 25

(ii) Far East

Trading Activities :

Alcan Asia Ltd., Osaka, is the trading company for Alcan products in Japan, India and Pakistan, whose major business is the import of aluminum ingot mainly from Canada. Alcan has long-term metal and technical assistance contracts with a number of major Japanese companies. Looking to the future, Alcanasia expects to maintain metal sales in the Far East at current levels, whilst diversifying its activities into other commercial products. With its long experience and broad distribution facilities, the Alcan trading organization is well placed to act as agent in the Pacific area for other Canadian exports.

Japan :

The dramatic post-war economic growth in Japan has resulted in the development of the second largest aluminum market in the free world. The growth of aluminum demand has recently outpaced general economic expansion. In 1969, GNP increased by 13% and aluminum demand by 26%, by comparison with an increase in U.S. GNP of about 3% and a growth of aluminum demand of 6%. Over the medium term, forecasts indicate an average annual GNP growth of 10-11%, with a corresponding increase in aluminum demand of 17%. The potential for continued expansion in Japan towards an advanced economy is indicated by the fact that in terms of GNP, Japan ranks second among the free world countries, but is 16th in terms of per capita income. The government is expected to provide, in addition to social overhead capital, strong incentives to develop technique intensive domestic industry, and to foster the trend towards import substitution and increased exports of secondary manufactures.

The Nippon Light Metal Company Ltd. (NKK) is the largest primary aluminum producer in Japan. Founded in 1938 and affiliated with Alcan since 1952 through a 50% equity interest, this company's metal production has grown with the industry. NKK now accounts for almost 30% of total Japanese production and, including sales of metal imported largely from Canada, for over 25% of the total domestic primary aluminum market. The largest portion of NKK's metal sales are made to established customers under long standing arrangements and the balance is sold to subsidiary and affiliated fabricating companies which have become major factors in the aluminum sheet products, wire rod, window sash and extrusions markets. Should the Japanese aluminum markets develop as currently projected, NKK has flexible plans which would involve substantial capital expenditures over the next five years, to be mainly financed locally. Such outlays could more than double NKK's asset base, NKK is collaborating with other Japanese producers in establishing an aluminum smelter in Okinawa, and it is possible that NKK may be asked to participate with other Japanese companies in joint ventures in other countries in the area.

Alcan also has a 50% participation in Toyo Aluminium KK (Toyal), obtained in 1931. Toyal is a leading manufacturer of aluminum foil in Japan, with a current market share of over 30%. Toyal also participates in joint fabricating ventures with Ecko Products Ltd. in Japan, and with Sam-A Aluminum in South Korea.

Japan is becoming an expanding field of activity for most major international aluminum companies, so that Alcan is likely to face more extensive competition in the future. Alcan was the first of the major international aluminum producers to enter and expand the Japanese domestic market, both in aluminum fabricating and smelting, and the commercial arrangements which were then negotiated are now being emulated by other multinational companies who are becoming aware of the potential in the Japanese market. Reynolds is a partner in a leading Japanese rolling mill - Mitsubishi Reynolds; Kaiser, together with another Japanese aluminum producer, Showa Denko, and a leading steel producer, Yawata Steel, form a fabricating company - SKY. Alcoa is a partner in Furukawa Aluminum, a rolling mill operation, and lately received from the Ryukyu Government on Okinawa a licence for an aluminum smelter to be constructed on that island, which will revert to Japan in 1972.

(iii) Southeast Asia

The Alcan name has had a long association with Southeast Asian countries, and in particular with the Malaysia/Singapore area, where, through agents and resident representatives, Alcan Aluminium products have been marketed for almost four decades, and the Alcan Group pioneered in exploring bauxite deposits in the State of Johore over 25 years ago.

Trading Activities :

Alcan Southeast Asia Ltd., Hong Kong, is the trading company for Alcan products mainly in Hong Kong, the Philippines, Malaysia, Thailand and China. Alcan Southeast Asia's sales revenue is expected to double by 1975 as a result of increased usage of aluminum in the developing countries to which it exports.

Malaysia:

In 1960, Alcan Malayan Aluminium Company Sdn.Berhad (Alcanmalay) was formed by the Alcan Group in partnership with Diethelm & Co., a long established Swiss trading company distributing imported metal in Malaysia and Singapore. Alcanmalay's objective was to meet the needs of Malaysian manufacturers for aluminum rolled products which were being imported. This enterprise was created through the co-operation of the Malaysian Government who provided inducement under the Pioneer Industries Ordinance, the assistance of Malaysian Industrial Development Finance Berhad who provided a long-term loan, the Alcan Group who supplied the majority of the capital as well as engineering and technology, and Diethelm who provided minority capital as well as their experience in distribution and sales of aluminum products.

In 1969 Alcan provided an opportunity for the Malaysian public to acquire 40% of the equity capital of Alcanmalay, and the resulting issue was extremely well received. At the present time, Alcanmalay is expanding its base as a producer of various forms of aluminum sheet and sheet products and will shortly commission a large extrusion press to meet domestic needs which are presently imported.

Also in Malaysia, Alcan has a 75% interest in Southeast Asia Bauxites Ltd., a raw materials mining and shipping operation. The remaining 25% is owned by NKK, who take a large portion of the company's output of bauxite on long term contract. A further large portion is sold to Taiwan for use in the government-controlled aluminum concern. The remainder is sold mainly to various large customers in Japan.

Thailand :

Alcan made a substantial investment in Thailand in 1969, by contributing to a joint venture with a local partner in the aluminum extrusions field. The company has been exploring the possibility of developing the domestic aluminum market in other fields, and it is likely that Alcan will maintain a strong interest in Thailand. Metal requirements to supply Alcan's investments in both Thailand and Malaysia are imported from Canada.

China :

Alcan was doing business in mainland China as far back as the 1920's, and used to be a partner in a rolling mill operation in this country. During the past ten years, we have from time to time sold metal to China.

In view of the recent establishment by the Canadian Government of closer diplomatic relations with Peking, Alcan is placed in a relatively favourable position as a potential source of aluminum supply. However, the aluminum demand picture in China is by no means clear at present, and Alcan will enter the market provided realized metal returns are acceptable.

(iv) South Pacific

Australia :

Since the late 1940's Australia has been undergoing the longest and most broadly based phase of expansion in its history. At times during this period, the economy has been subject to inflationary pressures and there have been brief period of recession, most recently in 1961. However, consistent attempts by the Government to achieve stable conditions for growth have been largely successful. GNP at constant prices has grown at an average annual rate of over 4%. Growth of production in the manufacturing, mining, building and construction sectors has been over 5% per annum.

During the last decade, the consumption of aluminum in Australia has grown at an average annual rate of 13%. This high rate of growth has been caused primarily by the fact that the Australian economy has recently entered a stage of high mass consumption. In this respect, Australia and Canada are closely comparable economies in which the rapid development of secondary industry and the importation not only of capital but also of consumption patterns from the U.S. had led to accelerated growth. However, this rapid rate of consumption is unlikely to be sustained over the next five years as housing and consumer durable markets become more saturated, and a growth rate of some 9% per annum is forecast to 1975.

Alcan has been in Australia since 1939, when Australian Aluminium Company Ltd. was formed and became jointly owned by Alcan, British Aluminium and Electrolytic Zinc Company. In 1951 Electrolytic Zinc sold its one-third holding in the company to the other two partners and in 1963, British Aluminium sold its one-half interest to Alcan which resulted in Alcan becoming the 100% owner of the company. In 1967, as an essential prerequisite to raising local long-term debt for a new smelter, the company placed 29.5% of the equity with 26 Australian institutions and the company's name was then changed to Alcan Australia Limited.

Alcan Australia commenced fabricating operations in 1941 when the first plant was built for the production of sheet and extruded products for defence uses. Over the years this plant has been progressively enlarged and the range of products substantially broadened.

Before 1955, all ingot requirements were imported principally from Canada, as Alcanaust was the dominant factor in the semi-fabricating industry. In 1955, two important occurrences took place: firstly vast bauxite deposits were discovered in Weipa and secondly the Government smelter at Bell Bay commenced operations. At that time, it did not suit Alcan to show an interest in the local smelter because Kitimat had just been completed. However, in 1958, Alcan embarked on an expansion programme in fabricating facilities which cost about U.S.\$20 million over the seven years to 1964. In 1960, a joint venture, Comalco (50% Kaiser, 50% Conzinc-Riotinto) acquired the Bell Bay Smelter. In 1962/63, Comalco integrated forward by acquiring a number of independent fabricators, and installing modern sheet, foil and extrusion facilities in Sydney. In 1963/64 Alcoa of Australia

was formed by Alcoa, Western Mining Co. Ltd., and two other Australian mining companies to establish integrated aluminum production. Following essentially the same route as Comalco, Alcoa purchased a number of end product manufacturers and installed modern sheet, foil and extrusion facilities near Melbourne. From 1963 onwards, as the capacity of domestic smelters increased, the Government imposed increasing restrictions on aluminum imports, resulting in a complete embargo by 1966, as a result of which Alcan lost its export market in Australia for Canadian metal. With the continued imposition of the embargo, Alcan constructed its own smelting facilities in Australia.

Construction of a 50,000 ton per annum smelter commenced in 1967, and to date some U.S.\$30 million has been invested. The above developments have led to Comalco and Alcoa having capacity in excess of their domestic requirements, which in turn has led to their adopting a very aggressive posture in export markets, particularly in the Pacific Basin countries.

In the raw materials field, Alcan has obtained a 21.4% interest in Queensland Alumina Ltd. in which several other major international aluminum producers also participate. This consortium operates one of the world's largest alumina refineries, based on extensive Australian bauxite reserves. Alcan's share of the output is largely used in its Australian and Canadian smelters. Queensland Alumina is undergoing very rapid expansion, which will result in the development of the world's largest alumina refinery by 1972. Alcan itself also owns an 84 year bauxite mining lease over some 600 sq. miles in the Cape York Peninsula, and future plans call for the possible development of this property during the next decade by a fully owned subsidiary.

New Zealand :

In 1961, Alcan established an aluminum rolling mill near Auckland, New Zealand, to supply sheet and coil products to the domestic market. A modern extrusion plant was added in 1964 for the production of aluminum sections. Alcan New Zealand Limited also has an interest in a large cable manufacturer. Metal for these fabricating plants is currently imported from Canada. Alcan has an agreement with the New Zealand government to import 100% of its ingot requirements through 1971, and 50% for five years thereafter. We would have wished to continue to supply our New Zealand subsidiary with all its metal requirements, but at present the government is not disposed to extend our import licence, in view of the establishment of local smelting facilities by Comalco. This Comalco smelter, with an initial capacity of over 100,000 tons, has been built largely to service Pacific export markets and will be a major competitive factor in the future.

In 1970, Alcan raised new equity funds locally, with the result that several local institutions as well as the New Zealand public have a total 30% interest in Alcan's New Zealand operations. An ambitious expansion programme is under way, which involves a new foil mill and a second extrusion press. It is expected that the future growth of aluminum consumption in New Zealand will be not less than the world average, which has been 8 - 9% during the past five years. Alcan New Zealand has established itself as the leading fabricator in the domestic market, and hopes to maintain this position despite the entry of Comalco into the smelting and fabricating field in New Zealand.

3. Possible Future Developments and Implications for Canadian Policy

Taken as a whole, the Pacific area has considerable potential for development by comparison with the world's major industrialized economies. Australia has only just reached a "take-off" stage in economic development, and Japan, despite its outstanding GNP growth, has not yet obtained a high level of consumption in per capita terms. The other Pacific nations are now in a relatively less developed stage, but should expand at above average growth rates of between 5 and 15% per annum during the next decade.

The process of development in the Pacific area is reflected in the changing regulations of the countries regarding foreign investments and trade. It is important that the nature of inter-governmental agreements between Canada and these Pacific countries change pari passu with the relative economic development of the countries concerned. As an example, whereas investor confidence in Australia was originally supported by the fact that Australia was an integral part of the Commonwealth, the investor must now look more to multilateral treaties for such confidence. In this respect, we hope that the Canadian Government will take a firm stand with Australia on matters concerning taxation. With regard to Japan, it should be understood that the level of protection should not be greater than that used by other nations which are at a similar stage of economic development, e.g. the E.E.C.

Looking further into the future, we foresee the likelihood of increasing economic ties between Japan, Australia and New Zealand, with the possible ultimate formation of a Pacific trade bloc which could also include some of the Southeast Asian nations. Australia is developing into a major competitor for Canada in the export of raw materials to the industrialized nations of the world and in particular to Japan. Indonesia also may develop into a major source of supply for Japanese raw material imports. Although Alcan is by necessity an exporter mainly of primary products, we believe that Canadian companies should develop exports of more secondary manufactures and finished products to the Pacific, and encouragement should be given to Canadian investors to participate in the development of the Pacific rim countries as a means of capitalizing onyour skills. Canada should not ignore the probability that China will ultimately seek development capital in Europe and North America and that Canada could be the conduit for such capital. We should anticipate that Japan's economic growth rate will slow down, probably by the time per capita GNP has reached U.S. levels or about 1980 by current forecasts; this development is likely to be accompanied by a readjustment process which may substantially affect the pattern of trade and investment with Japan.

The growth of Canada's exports has been impressive and this can be attributed in no small part to an improvement in the Export Development Corporation's long and medium term financing arrangements as well as to the insurance scheme that is now offered. We have used these facilities to export capital items from Canada to India and other countries but would like to suggest that the programmes could be improved by providing a rediscount facility for export paper which results from such export transactions, and selected market insurance coverage.

We also note that the U.S. Treasury is talking of setting up a new taxfree export incentive proposal, taking the form of a "domestic international sales corporation". Although full details of this plan and its implications are not yet known, it is aimed at providing an incentive for American corporations to expand their export facilities in the United States to supply world markets, including Canada, and this would obviously be disadvantageous to Alcan's exports from Canada to the Pacific rim countries.

When one reflects on these far-reaching developments, the need for closer communication between governments becomes all the more imperative. To some extent this development is inevitable as multinational corporations continue to expand their spheres of activity and become major factors in the economies of countries other than their original home base. If Canada decides that it wishes to further encourage the development of Canadian-based multinational companies, then a favourable environment must be created for the growth of such enterprises. This environment should incorporate new tax regulations to encourage exports and to encourage Canadian-based multinationals to raise capital abroad and channel the funds to subsidiaries overseas without attracting Canadian tax. As one of the world's major trading nations, Canada is in a position to play a very active role in fostering intergovernmental cooperation and in helping to shape the progress of its Pacific neighbours, whose fortunes will increasingly affect those of Canada itself.

APPENDIX "B"

STATEMENT BY K. H. J. CLARKE, ASSISTANT VICE PRESIDENT,
THE INTERNATIONAL NICKEL COMPANY OF CANADA LIMITED,
BEFORE THE CANADIAN SENATE FOREIGN AFFAIRS COMMITTEE

November 24, 1970

I am honoured to have the opportunity to present a statement by International Nickel on a subject that, as indicated in the Canadian Government's recent foreign policy paper on the Pacific, is of such interest to Canada and Canadians.

I also welcome the opportunity because it allows me to bring you up-to-date on some of the activities of International Nickel -- and, thereby, this Canadian Industry -- in the Pacific area.

The Government policy paper on the Pacific has aptly pointed out that, for geographic, economic and historic reasons, the future of Canada is closely related to the economic, social and political evolution of the Asiatic and Pacific countries. Indeed, the degree to which this overall region achieves "peace and stability", in the face of many serious problems and "forces of change", will fundamentally influence the pattern of world history. The meaningful proposals set forth in the Policy Paper implicitly recognize the link between a proper

development of the region's vast economic potential -- people, natural resources, underpopulated areas -- and the establishment of the "social justice" and "quality of life" that peace and stability are based on.

This economic growth, as the Policy Paper notes, has already begun -- partly through initiatives taken by the various countries themselves, but, to a considerable extent, through the efforts of Canadian and other overseas companies. International Nickel has been a leader among these companies in these activities.

I would like to review for you briefly some of the circumstances which have led us to participate in the Pacific region, and also describe some of our various activities there for you. Before doing so, however, I would like to note that much of Pacific area is stable and is being steadily developed. It embraces countries with some of the most politically stable governments in the world -- as well as Japan, the second largest economic power in the non-Communist world. Because of its key significance to any reflection on the Pacific area, I will also devote a portion of this statement to International Nickel's activities in Japan.

I think you will note, however, that this statement is not responsive to some of the points raised in the Canadian Government Foreign Policy paper and in the suggestions of the Parliamentary Centre for Foreign Affairs and Foreign Trade. This is because we feel that our business activities in the Pacific -- exploration for new mineral sources and exporting mickel from Canada to Japan -- do not put us in a position to have expertise on various topics of interest to this committee.

As you know, up to the present, Canada has been the world's major source of nickel, all of it coming from sulphide ores. The dramatic growth in nickel demand over recent years, however, has led producers and would-be producers to look toward the development of other ore sources, not only foreign sulphides but, most prominently, the lateritic ores.

It is estimated that some 80 per cent of the world's known nickel reserves are contained in the lateritic, or oxide, ores found in tropical and subtropical regions. Their development represents the great bulk of future expansion in the industry.

Some of the most important lateritic deposits are in "Pacific Basin" countries -- Indonesia, the Philippines, Australia and, of course, New Caledonia. Indeed, there have been estimates that New Caledonia, alone, by 1975 could be producing 25 per cent of the world's nickel.

By this same year, despite planned substantial increases in Canadian nickel output, Canadian production is expected to account for less than one-half of the non-Communist world's nickel supply and about one-third of the entire world's nickel supply.

This does not necessarily mean, however, a diminution of Canada's worldwide role in the nickel industry. The development of the foreign ore bodies, such as those in the Pacific area, offers an exceptional opportunity to Canadian mining companies with their unparalleled mining experience and technical know-how.

International Nickel has long recognized that, if it is to remain a major factor in the industry, it must successfully participate in developing the laterites. Our own studies have demonstrated that the laterites can be profitably developed and that they will be highly competitive with sulphide production. In addition to the vast amount of research we have conducted to acquire a mastery in treating these ores, we have actively explored the lateritic-bearing regions of the

world, and at present, have projects underway in the Pacific area -- which will hopefully lead to fruitful producing operations.

In the French Territory of New Caledonia, International Nickel is a partner with a holding company of French interests in the new company, COFIMPAC. We recently presented a feasibility study to our partners in this company which sets forth a technically and economically feasible plan to produce 100 million pounds of nickel a year — in the form of carbonyl pellets. This project, which would represent an investment of \$481,000,000, could reach full production in mid-1975. Although it has been favourably considered by the French partners, the report has not yet been definitely approved.

In <u>Indonesia</u>, International Nickel has formed a subsidiary,

P. T. International Nickel Indonesia, which is proceeding rapidly
with the investigation of nickel deposits in a 25,000-square-mile
area on the island of Sulawesi. The results thus far have been
encouraging and, as a matter of fact, a bulk sample of Indonesian
ore has recently arrived here in Canada for analysis and test processing
at our pilot plants at Port Colborne, Ontario. We expect to present to
the Indonesian Government a preliminary plan for the development of
these deposits early next year.

Exploration feasibility work is also being pursued on lateritic nickel deposits in the <u>British Solomon Islands Protectorate.</u>

International Nickel has been exploring in Australia for some years. Working with The Broken Hill Proprietory Company Limited, its major effort at present is in the Kalgoorlie region of Western Australia where important nickel deposits have been found by others.

These efforts led to the discovery in 1969 of interesting deposits of nickel sulphide mineralization near the town of Widgiemooltha, Western Australia. Work began in April 1970 on the sinking of a 1,000-foot shaft that will permit extensive exploration at depth and the hoisting of bulk samples for metallurgical testing.

The company is also collaborating with Broken Hill in evaluation work on a lateritic nickel deposit at Rockhampton, Queensland.

Another recent activity in Western Australia, in which

International Nickel is the majority shareholder, was the completion
last summer of a comprehensive feasibility study on the Wingellina

nickel deposit held by Southwestern Mining Limited, which concluded that development of this particular deposit at this time remains uneconomic.

Although our activities in Australia have not yet led us to where we can delineate a specific project, we are confident that International Nickel will participate in the future development of Australia's mineral resources.

I would like to point out here that, in addition to their ore potential, a major factor in our considering the development of projects in Indonesia, Australia and New Caledonia has been the favourable conditions with which the governments of these countries have encouraged outside investment. Their policies, while logically preserving conformity to local conditions, recognize the risks involved in the vast investments these projects entail, as well as the difficulties presented by infrastructure needs, skilled labour requirements, and remoteness of location. The investment climate, while varying considerably in detail and means, are comparable to those long provided by Canada, and which have contributed in no small way to the development of Canada's great mineral industry.

In Australia and New Caledonia the investment climate is also enhanced by political stability. This is also becoming increasingly true of Indonesia which continues to make important progress in the social and economic advancement.

I would now like to turn to Japan. As you know, the industrial expansion of this country has been nothing short of phenominal. A clear indication of this growth is its nickel consumption which has moved from an annual rate of 60,000,000 pounds in 1965 to 190,000,000 pounds in 1970. By 1975 it is estimated that Japan will be consuming over 300,000,000 pounds of nickel.

Although Japan has no ores of its own, it is a major producer of nickel products based on ores from New Caledonia, Indonesia, Australia and Canada. Immediately following World War II, Japan depended almost entirely on imports from Canada. The establishment, and careful protection, of a Japanese nickel industry was brought about by the rapid industrial reconstruction of Japan, the worldwide nickel shortage caused by the Korean War and U.S. and U.K. stockpiling policies. As a result, it has become one of the facts of life that Japan is determined to, and will for probably a long time ahead, produce internally the bulk of her requirements for primary nickel products.

Although Canada is presently the producer of over 60 per cent of the free world's nickel, her share of the Japanese market is under 20,000,000 pounds or 10 per cent of the whole. In order to acquire a foothold in Japan before the opportunity was foreclosed by arrangements between Japan and alternative sources of ore supply, International Nickel joined with Japanese partners in 1965, in a jointly owned project, the Tokyo Nickel Company, to produce nickel oxide 75, which is directly competitive with ferro-nickel and other nickel oxide produced in Japan. Feed for the plant is our refined nickel sulphide product exported from Canada.

Because of the needs of its other customers suffering from short supply, Inco had been supplying this plant 10,000,000 pounds a year only. Because of the Ontario government's policy that the refined nickel sulphide product which we export maximize to the most practicable extent Ontario and Canadian employment, the permission of the Ontario government was required to permit us to export this product, which is virtually the same as the nickel oxide 75 produced for direct sale in Ontario, before the sulphur has been removed. The Ontario cabinet granted this permission and also, last August, permission to increase the feed by an additional annual rate of 15,000,000 pounds.

We feel that their decision is an example of the type of imaginative flexibility that is needed if Canada is to acquire and broaden its foothold in the Japanese nickel industry.

By making it possible to participate on a slightly larger scale in this activity — and thereby meet some pressing immediate Japanese needs — Canada's overall competitive position is strengthened in the face of the active efforts of the Japanese to import ores from other sources. It may even have the effect of retarding, or causing a re-thinking of, the participation of Japanese interests in nickel-producing operations elsewhere.

While fully appreciating the concern of Canada's Federal and Provincial governments that maximum benefit, in terms of employment and utilization of local facilities, be derived from its local industries, I would like to suggest that the willingness to accommodate specific circumstances such as those in Japan by these governments is to the long range advantage of Canada.

Another example of International Nickel's efforts to strengthen its presence in Japan is the market development company it has established there, International Nickel Japan Limited. This company provides all segments of Japanese industry

with scientific and technical information that International
Nickel provides in many other countries of the world, including
Canada, the U.S., the United Kingdom, and the European
Common Market countries.

It is unlikely that there will be an imminent change in Japan's protective policies — or one which will lead to the immediate creation of reciprocal trade policies. As indicated by the recent abolition of the import quotas for nickel and a slight gradual reduction in duties, the long range trend is probably toward a more liberal policy. I feel that no industrial sector is better placed to take advantage of it than the nickel industry.

I think it is clear that the development of the nickel potential in the developed and developing countries in the Pacific area offers a challenge to Canadian industry. But because of the great strengths which that industry has in mining, processing, marketing and financial know-how, it also offers an exceptional opportunity. This is also an opportunity to implement creatively and with mutual benefit the admirable goals of the Canadian government foreign policy paper on the Pacific.

There is no doubt that there will be a positive Canadian presence in all of the areas I have referred to. I am confident that, as in the past, the same understanding and flexibility which Federal and Provincial governments have shown will continue and that this presence will be a profitable one.

APPENDIX "C"

STATEMENT BY K. H. J. CLARKE, CHAIRMAN, CANADIAN NATIONAL COMMITTEE, PACIFIC BASIN ECONOMIC COOPERATION COUNCIL BEFORE THE CANADIAN SENATE FOREIGN AFFAIRS COMMITTEE

November 24, 1970

The Committee requested that, in my capacity of Chairman of the Canadian National Committee of the Pacific Basin Economic Cooperation Council, I outline the aims and objectives of that organization. I appreciate very much the opportunity to do so.

The Pacific Basin Economic Cooperation Council is an informal organization of senior business executives in Australia, Canada, Japan, New Zealand and the United States. The Council operates entirely under private auspices.

The main purposes of PBECC are twofold. One is to strengthen economic and business relationships among the five member nations. The other is to generate greater economic and social progress in the Asian developing countries of the Pacific Basin.

In the PBECC Covenant, adopted at the First General Meeting in Sydney, Australia, in May, 1968, the members agreed to engage in activities on a multilateral basis as follows:

A) Promote economic collaboration among the member countries, including; expansion of trade, exchange of capital and industrial technology, promotion of

- tourism, joint studies, exchange of economic information, clarification of economic problems, and promotion of cultural and scientific pursuits.
- B) Cooperate with the developing countries in their efforts to achieve self-sustaining economic growth including, for example: promotion of capital and technology in agriculture, mining and other industrial fields; expansion of trade in products of the developing countries; development of cultural and scientific exchange; and promotion of tourism.

The first president of the Pacific Basin Council was Shigeo Nagano, Chairman of Nippon Steel Company. He was succeeded in 1970 by The Honourable Sir Edward Warren, Managing Director, The Wallarah Coal Company Limited of Australia. The international headquarters of PBECC rotates among the member countries along with the office of president.

The executive arm of PBECC is its Steering Committee, composed of three representatives from each of the five national committees. It meets twice yearly to discuss policy questions and to give direction to the Council's studies and action projects.

The major programs of the Council are carried forward through five international standing committees operating in the fields of economic development (including trade), natural resources, human resources, transportation and tourism. Canada's representatives on these committees are business leaders having specialized knowledge and experience in their committees' fields. These committees endeavour to strike a reasonable balance in their activities between action-oriented programs and discussion forums. Their range has included such topics as monetary problems in the Pacific countries; business opportunities in Indonesia, Korea and the Republic of China; population and food problems in Asia and the Far East; barriers to trade among the Pacific nations; Japan's capital liberalization and foreign investment programs; the long-term outlook for business in each of the PBECC countries; and potentials for post-Viet Nam development.

While PBECC is the exclusive domain of competitive enterprise, it maintains close liaison with many governmental and international agencies including, for example, the Asian Development Bank, the Economic Commission for Asia and the

Far East, UNESCO, etc. Its recommendations involving government policy are brought before the governments concerned by the respective National Committees which, in turn, report upon the responses received. In matters not requiring government action, the Council endeavours to organize its own implementation.

The Canadian Committee for Pacific Basin Economic

Cooperation is jointly sponsored by the Canadian Manufacturers'

Association and the Canadian Chamber of Commerce. Its

membership is widely representative of the whole spectrum

of Canadian business - resource industries, manufacturers,

financial institutions, transportation companies, consulting

engineers and a variety of other professional people - all of

whom share an enthusiasm for Canada's potential as a member

of the Pacific community and a desire to help realize that

potential.

Our Committee has received the most cooperative attention of the Government of Canada and its representatives abroad. Canadian delegates to PBECC meetings have benefited from advance government briefings and, on their return, have reported in detail on their

international discussions. In those instances when we have made recommendations to the government as a result of PBECC decisions, the response has been interested, serious and constructive.

The principal preoccupation of the Canadian Committee at present is the planning of the 4th General Meeting of PBECC, to be held in Vancouver in May, 1971. On that occasion we will be hosts to some 350 people, including not only the delegates from member countries, but guest participants from ten developing nations of East and South East Asia.

A central focus of the meeting will be to find means of stimulating private investment in the less developed countries through some form of international security against expropriation.

PBECC is keenly aware of the accomplishments of governmental aid in improving economic and social conditions in these countries, but we believe their development will not achieve the levels needed until they gain the confidence of private investors and the immense creative force of competitive enterprise to provide gainful employment and rising standards of living.

PBECC is still a very young organization and, consequently, its record of concrete achievement is not long. It has, however, from the outset succeeded in achieving a frank exchange of views, a sense of purpose, an acceptance of joint responsibility for the solution of international problems, and an enthusiastic willingness to work together constructively. We believe it merits the strong support being given by its Canadian Committee.

Queen's Printer for Canada, Ottawa, 1970





THIRD SESSION—TWENTY-EIGHTH PARLIAMENT
1970

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

Foreign Affairs

The Honourable JOHN B. AIRD, Chairman

JAN 1 4 1971 *

No. 5

WEDNESDAY, NOVEMBER 25, 1970

Respecting

THE PACIFIC AREA

(Witness: - See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman

The Honourable Senators:

Belisle McElman
Cameron McLean
Carter McNamara
Choquette Nichol

Connolly (Ottawa West) O'Leary (Carleton)

Pearson Croll Eudes Quart Rattenbury Fergusson Robichaud Gouin Sparrow Haig Hastings Sullivan White Laird Yuzyk—(30) Lang

Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,
The Honourable Senator McDonald moved seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Wednesday, November 25, 1970.

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10:05 a.m. this day.

Present: The Honourable Senators Aird (Chairman), Carter, Connolly, Croll, Fergusson, Grosart (Deputy Chairman), Haig, Laird, McLean, McNamara, Quart, Robichaud, Sparrow and Yuzyk—(14).

Present, but not of the Committee: The Honourable Senators Lafond, Molson and Prowse—(3).

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

The Chairman (Senator Aird) introduced the following witness:

Mr. Mark Gayn, Chief of Asia Bureau, Toronto Star.

The witness was thanked for his assistance to the Committee.

At 12:35 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, November 25, 1970

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 10 a.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: This meeting of the committee has been called to take advantage of a visit to his home base by Mr. Mark Gayn, the Chief of the *Toronto Daily Star's* Asia Bureau in Hong Kong.

It is our great pleasure to welcome not only Mr. Gayn but also his charming wife, who is sitting on the far side of the room.

It is generally acknowledged that Mr. Gayn is one of Canada's most knowledgeable specialists in Pacific and Far Eastern affairs. I am advised that he was born in Mongolia, that he speaks Chinese and also French, Spanish and Russian, and has made numerous visits to China over the years. On one such visit in 1947 he scored a journalistic coup by conducting a lengthy interview with Mao Tse-tung in a cave in Yenan. I am told that this interview began at 3 o'clock in the afternoon and lasted until 2 o'clock the next morning.

Mr. Gayn's last visit to mainland China was made in 1969. He joined the *Toronto Daily Star* in 1959, and became chief of that paper's Hong Kong bureau in 1966. He is the author of a number of books, including *Seize the Hour—Seize the Day*, published this year.

Mr. Mark Gayn: It has not been published yet.

The Chairman: Well, I am giving a little publicity to Mr. Gayn's new book.

Because of his previous background and interest in Eastern Europe, Mr. Gayn is particularly well qualified to make topical comments on China's international relations.

Mr. Gayn, our committee, of course, is greatly interested in China and in your views on Canadian relations with all the countries of the Pacific region. Therefore, I should like to invite you to make an introductory statement, after which the members of the committee will direct questions to you. The questions will be led by Senator Allister Grosart, whom I believe you know, and who lived in China for one eight-year period.

Mr. Mark Gayn, Chief of Asia Bureau, Toronto Daily Star: Senator Aird, honourable senators, I wish to thank you for this opportunity to appear here to tell you what little I might know about China. Much of what I have to

say is necessarily speculative. All I can say in support of my assumptions is that I have spent a good part of my life in Asia. I have represented the *Toronto Daily Star* in the Orient for the past five years. However, I have also worked in the Far East in the forties after Japan's surrender and, before that, in the thirties. At the present time my area of coverage extends from Pakistan to Japan and Korea, with special emphasis on Japan and China.

Unlike your other witnesses, I have no prepared statement; I simply have a list of items with which I should like to deal. With your permission I shall speak informally, if it is possible to do so in this august building.

The Chairman: I think it is very possible.

Mr. Gayn: I felt that today I might usefully deal with three principal areas: the prospects for our relations with China; the Uninese foreign policy; and the likely political developments in Peking in the years to come.

I welcome our recognition of the Government in Peking. It was both desirable and inevitable and should have come much earlier. The benefits are considerable. The recognition allows us to place our diplomats in the capital of a great nation whose importance in international life is already beyond question. In effect the recognition adds a line of contact between China and the world. The ingenious Taiwan formula, of which you no doubt know, on which the recognition is based is now being used by other countries to resume relations with China and thus hasten the day when Peking's representatives will sit in the United Nations. This may come next year, but surely within the next two years.

These may not be tangible benefits, but they are considerable. It should also be realized, however, that there are limitations. There are a good many things that the recognition will not achieve. It will not necessarily increase our sales to China. In its policy statements Peking has always linked trade with politics. In fact, it has usually differentiated between the two to suit its national interest. Japan today is one of the two main targets of Chinese criticism and denunciation, together with the United States; yet Japan is also China's main trading partner and that trade is growing in a spectacular fashion. Last year the two-way exchange between them reached \$610 million; this year, according to my Japanese friends in Hong Kong, it is likely to reach \$780 million.

If our trade with China increases, it will be only because our manufacturers are able to offer better goods at competitive prices, and on credit terms more advantageous than those offered by our competitors. So far the

Canadian exporters have shown no great enterprise, nor even much interest in trading with China. This is distinctly untrue of our farmers. It must be remembered, however, that China's purchases are governed by her very limited resources.

Thirty years ago, when the Chinese population was 400 million, there was an American author and businessman who wrote of the vast Chinese market. He argued that if every Chinese bought just three yards of cloth a year, American mills would be busy around the year. Today the Chinese population is almost twice that figure, but she must remain a minor market for a long time, simply because she has limited funds with which to pay for her purchases.

Another assumption that I have found in this country is that Canada, through her new embassy, will be able to exert influence on Chinese policy. This is based, I think, on a total misunderstanding of China and the dedicated revolutionaries who govern her.

Twenty years ago the United States State Department was attacked for, I think the expression was "selling out China", as if the Americans could somehow alter the course of that historic revolution.

Chinese policies are dictated by her own interests, the inclinations of her leaders, their political philosophy, but not by conversations with Canadian or any other diplomats. Canada has been pictured in this country as a bridge between China and the United States. I think that this is a grand illusion. If the moment ever comes when China must re-establish friendly, or at least correct, contacts with the United States, there are numerous channels or bridges open to her.

One of them, of course, exists in Warsaw, where they have had sporadic conversations. The purpose of that arrangement in Warsaw is really to secure a channel for the essential moment, if and when it arrives.

It must be understood that the Canadian diplomats in Peking will be isolated from the Chinese leadership. They will be able to see Chinese leaders only at major events, when Canadian diplomats might be invited to share the tremendous balcony on the Gate of Heavenly Peace twice a year. There will probably be no other contact, except on the day when the Canadian ambassador presents his credentials to Premier Chou En-lai and, presumably, to Chairman Mao Tse-tung.

The experience of other diplomats in Peking has been the same. Even the French, who today are among the privileged people in China, do not have contacts with the leadership of the Chinese communist party, again except when some dignitaries arrive from Paris and seek contact with Chairman Mao Tse-tung.

Therefore, we must not have an exaggerated notion of what the embassy will be able to do. The embassy will be able simply to see what is happening in a limited area of Peking—not even all of Peking. It will have access to only two of the newspapers published in Peking. All the other newspapers are forbidden reading for the non-Chinese. It will have unbelievably limited contacts with the Chinese public. Members of the embassy will not be able to meet, as our diplomats in Moscow can, Chinese intellectuals, political figures and scientists. Even their

contacts with ordinary Chinese will be confined to those with their servants and perhaps their Chinese language teachers. Everything else will be virtually impossible, partly because it is difficult to find Chinese nationals who will talk to you and partly because of the official restrictions.

I think that the recognition will permit a limited number of traders to enter China. However, we have long had considerable freedom in getting our traders to the semi-annual trade fairs in Canton. Some of them even today are able to go to Shanghai to place orders, to sell whatever they have to sell, and to conduct negotiations with Chinese trading trusts. Therefore, there should not be any appreciable difference in the access of traders to China.

I think that small groups of tourists will also be able to visit China, which is all to the good. I wish that I could say that Canadian newspapermen will also have reasonably free entry into China. The Chinese have been reluctant to allow journalists to enter. Usually it is done on the basis of reciprocity, one of you for one of us. Since China operates only one news agency and it already has representation in Ottawa, the Chinese are reluctant to allow a large number of Canadian journalists to enter Peking.

I wish that, like France, Canada had discussed this matter with the Chinese during the negotiations in Stockholm. It is my feeling that this subject was not thoroughly aired. It is also my feeling that the Department of External Affairs has not exerted the kind of influence and pressure that it could to help Canadian journalists to enter China. This is regrettable, because it is in the national interest to have our journalists in areas of major interest to us.

I must now turn to the Chinese foreign policy. As you know, during the cultural revolution between 1966 and 1968 or early 1969, China had had virtually all of her ambassadors in foreign countries recalled home to participate in the revolution. In the past six or eight months these envoys have been returning to their posts. Out of, I think, 46 possible ambassadors abroad, China today already has about 30 back at their jobs. China is now represented diplomatically is most of the important countries, and other envoys are returning to the less important posts.

This represents a significant change in Chinese foreign policy. For three years, China has lived in a climate of isolationism; she has been looking at her own problems; she has not been interested in what has been happening outside her own borders, except perhaps in her relations with the Soviet Union, but even there the contacts were of a very limited nature.

Today, the policy has been reversed. It is now apparently in the direct charge of Premier Chou En-lai, who is an extraordinarily competent, in fact brilliant, diplomat and statesman. Under him, there has obviously been the realization that a great nation like China cannot live in isolation, that it is essential to reopen contacts with the outside world. This is now being done. The new policy has demonstrated great suppleness. The Chinese have achieved a number of important successes this year,

primarily in their relations with the Soviet Union. The Soviet Union and China, whether they are on correct terms or harsh, are always in conflict in Asia. In her contest with the Soviet Union, China has scored a number of gains. There has, for instance, been an increase in Chinese influence in North Korea, which in the previous three or four years has been within the Soviet sphere.

The Chinese are seeking to extend their influence in Laos, Cambodia and Vietnam; indeed, in the whole of Southeast Asia. They have done this, again with considerable success, partly through the employment of the Cambodian ex-ruler Prince Sihanouk, who now has his residence in Peking and who has served a number of uses. The Chinese have now been able to establish strong interest in Cambodia, as friends and allies of the new government-in-exile in Peking, which they finance. I was told in Moscow on my way here that the Chinese have granted a loan of US\$5 million to this government-in-exile.

Chinese relations with the United States remain harsh, and they are governed by two factors. One of these can best be described in terms of a triangle, involving the United States, Soviet Union and China. In this triangle, every one of the three countries is worried about the possibility of closer bonds between the other two. The Chinese are disturbed by the growing evidence of rapprochement, a détente, between the Soviet Union and the United States, and this is where Warsaw plays an important part. Whenever the relations between Moscow and Washington become closer, the Chinese indicate in Warsaw that they are quite willing to talk to the Americans.

The second consideration is philosophical, and I think it is as important as the first one. Chairman Mao Tsetung has spent much of his adult life in the wilderness. His mind has been conditioned not only by what he saw during the civil war, but also by his reading and thinking. He believes devoutly, beyond any questioning, in the existence of an historic conflict between capitalism and communism, between the oppressors and the oppressed. It is inconceivable to him and to the other leaders in Peking that China, the greatest revolutionary power in the world, the spokesman for the oppressed nations, could somehow come to friendly arrangements with representatives of the greatest and most powerful champion of capitalism. This is an important, indeed a vital, factor in the national life, in the formulation of China's policies.

There is a great deal of talk in the American press today about the need for gestures from Washington to improve relations with China. I believe this is idle talk. The relations between them could improve only if the United States somehow changed its political system and its political direction; the relations could improve only if the Chinese felt they are secure from the American forces emplaced in Asia, if they could see that the Americans have pulled out of Vietnam, if they could see the Seventh Fleet gone from the Strait of Taiwan; and if they felt that Taiwan is no longer a major American

base. Only if all this happened, or if there were a threat of rapprochement between Moscow and Washington, would China indicate her desire to improve relations with the United States. The notion that our embassy in Ottawa could somehow help to improve relations between the United States and China is silly.

What is going to happen in China after Mao dies? In the past two or three months I have discussed this question in Tokyo with the top China experts in the Foreign Office. I have been fortunate enough to discuss it also with leading Soviet experts on China. Opinions differ. There now seem to be two assumptions. One is that after chairman Mao dies, if it comes soon enough, Chou En-lai, Lin Piao, and perhaps another man will come to power in a triumvirate, which will represent a bridge between the era of Mao Tse-tung and whatever follows. The crucial question is what follows.

The Japanese have a list of about 50 potential candidates to replace Chairman Mao, five, ten, fifteen years from now. They are unable to settle on any one of these as the likeliest candidate. The 50 include generals, secretaries of provincial communist parties, governors in the provinces, and perhaps men in the apparatus of the Chinese communist party in Peking. My own feeling is that the Mr. X who is likely to arise in the future will be able to do so because he is a pragmatic man, who will look at China and say, "We are now suffering from a host of problems, technological, economic and others; we must open doors and windows on the world and get ideas, know-how, credits, equipment." I think this Mr. X will be a man who will be able to create alliances within the governing élite of China. He will necessarily be allied with the army, because at the moment the army is the element that maintains control over China, that maintains order. After Chairman Mao's death, it will provide the cohesion needed to bind China together.

The other assumption which I recently heard in Moscow—and with some amazement—is that after Chairman Mao dies, and after Chou-En-lai had provided the bridge to the future, there may come a more radical solution than the one you saw in 1966-1968. The Soviet assumption is based on the premise that China is face to face with insoluble problems—the steady increase in the population, the poverty of the country, the urgent need to develop agriculture some Russians believe it will not be possible to solve all these problems without a great outpouring of aid from the outside.

Soviet experts do not expect such an outpouring. Their theory is that ten years from now Mr. X will look at China and see all these problems. He will say, "If we cannot get aid from the outside on the scale on which it must come, we will have to adopt extreme solutions. The limited loaf of bread we have will have to be divided equally among the 850 million." This would demand the kind of controls, political fervor and discipline that you had in China between 1966 and 1969.

I am inclined to question this second assumption. I still think that the man—or group—that will eventually rise to power will be pragmatic. It may possibly be a little less difficult to deal with it than with the present leadership. I should like to conclude this by saying again that I

think the recognition of China—the resumption of our relations—is a blessed thing. It should have come a long time ago. It should bring many benefits. But I think we must also recognize that many of these benefits are intangible and also that there are great limitations of what Canada or our embassy in Peking will be able to achieve. Thank you.

The Chairman: Thank you very much, Mr. Gayn. I think it will be self evident from the great attention the senators have displayed to your remarks how much they appreciate the opportunity of having a veritable encyclopaedia on the witness stand this morning. One of the things about having an encyclopaedia present is that we hope to perhaps, through questioning, get some of the answers that are very much on our minds. I would hope for a very broad participation amongst the senators in the questioning. I would ask Senator Grosart to lead and then Senator Croll and Senator Carter.

Senator Grosart: As both an old China hand in my youth and an old newspaperman, may I add my compliments to what I would like to say. I have read a good deal about China over the last 40 years, but this was a virtuoso performance in giving us an image of China today in so short a time.

Could I start by asking you a very practical question. What nations were ahead of us in the recognition of Red China?

Mr. Gayn: There are more than 30, but the important ones are Britain, France, the Soviet Union and a number of Communist and African countries. A few important ones are about to have missions in Peking, including Italy which is using the Canadian "Taiwan formula." Belgium and Luxembourg apparently will be recognizing China soon.

There is a very large diplomatic representation there, and that is why I feel Canada should have been in China a great deal earlier,—even though in 1966-69 many of the embassies felt they would have been much happier had they not been there.

Senator Grosart: Do you care to speculate as to why it has taken Canada so long, particularly in view of the fact that the British recognized the present regime as early as they did?

Mr. Gayn: There are a number of factors: one, I presume, has been apprehension about the American reaction. I think that in the past two or three years the Americans have been secretly pleased to have a Canadian embassy in Peking, perhaps because they themselves wish they could establish some sort of a contact. They know that this is difficult, if not unlikely, in the foreseeable future. They hope that Canada will indirectly help them to know what is happening in Peking. This may be self delusion, but it does exist.

Another factor in the delay has been the unhappy experience of Western embassies in Peking. The British are almost totally isolated in China. Their embassy has not been able to afford protection to British nationals arrested outside of Peking, or even in Peking. It is true

that within the last six or eight months most of the arrested Britons have been released. But the fact is that British diplomats have not been able to gain access to their detained nationals. The diplomats in Peking are not allowed to travel outside of the city, except on rare occasions. Therefore, there is a distinct limit to the usefulness of the embassy. This has been much on the minds of the people in External Affairs.

Senator Grosart: The main argument that seems to have been brought forward against Canadian recognition of Red China, or the recognition of Red China by any other nation in the Western non-Communist bloc, has been the fear that it would discourage the efforts of the various southeast nations to stay with the West rather than go the Communist way. Would you say there is any validity in that? It is the viewpoint you normally get from Australians and New Zealanders.

Mr. Gayn: As an aside, the Australians should also have arrangements with the Chinese fairly soon.

There are two items which I have not mentioned. One is the future fate of Taiwan. Some of the small nations in the United Nations fear that once a small country-I am using their argument—is "sacrificed" by allowing the Chinese Communists to move in, then their own position might be affected in the future. This is still very much a factor in the decision of so many countries to vote with the United States. If somehow a formula could be found under which Taiwan remained independent, then these countries would very happily vote for Peking's entry into the United Nations. But this is a dream. No sovereign power is likely to allow a part of itself to remain independent and sit side by side with it in the Assembly of the United Nations. Both Peking and Taipei see Taiwan as a part of China. It is only on this basis that Peking would enter the United Nations. If anybody assumes that somehow Peking would allow Taiwan to remain there under some guise, I think he is mistaken. So much for Taiwan.

In southeast Asia there is considerable fear of China's influence in the future. When you speak to statesmen in Malaysia, Singapore, Indonesia or Burma, they always talk about this tremendous land mass which is hanging over them.

In some of these countries there are revolutionary movements which, at least, owe loyalty to the revolutionary doctrines in Peking, and the fear is that Peking is helping them or might help them. These statesmen welcome the arrival of Japan and the Soviet Union on the scene because they hope that in these two they might find some sort of a counter-balance to China once the United States pulls out.

But I think that these Asian leaders also believe that Peking's entry into the United Nations is inevitable, and perhaps even desirable. It was significant that Malaysia, which has an anti-communist government, changed its vote last week. Singapore will certainly wish to see Peking represented in the United Nations. That is also true of Indonesia, now trying to re-establish diplomatic relations with Peking.

So I think that, in general, Peking's admission into the United Nations is widely desired. Indeed, it is desired more widely than was shown by the vote in the United Nations last week.

The reaction of many nations must be similar to the reaction of the Soviet Union. Two or three weeks ago, I had to write a report on Soviet reactions to the Canadian recognition of China. While in Moscow, I spoke to a number of senior Soviet officials involved in the China field. They said, first, that they were not surprised by the Canadian recognition. It was bound to come. Second, they conceded that when Peking enters the United Nations, life may become very uncomfortable for the Soviet Union. But they said they were braced for this shock and, since it is inevitable, "Why fight it"? The Russians are prepared for it.

I think this is the reaction of most of the Asiatic countries.

Senator Grosart: Would you say Chinese foreign policy has any on-going strategy to expand its present territorial borders?

Mr. Gayn: No, sir, I do not. A study of Chinese foreign policy since 1949 will indicate that China had entered conflicts near her own borders only when she felt her security was at stake. This was distinctly true in the Korean conflict, when the Chinese saw the American armies approaching the Yalu River. It was, therefore, thought necessary to meet them some distance away from the river. The other conflict in which China participated actively was in India in 1962. In that case, it is curious to note, Taiwan took the same position as Peking. This whole Sino-Indian border area is ill-defined, and the Indians were sending probing units into it. The Chinese reacted in a very forceful manner. They moved in and put the Indians to retreat. Then they went back across their own line. Otherwise, China has not been directly involved in any military ventures, although war has been almost a permanent fact of life in that part of Asia.

Senator Carter: While you are on that point, would you deal with Tibet? Why would they go into Tibet?

Mr. Gayn: I share Peking's feeling that Tibet is a part of China. At this point, nearly everyone in Asia agrees with this, and that includes Chiang Kai-shek. The Generalissimo also regards Tibet as part of China. Tibet is not an independent country. It has been a British protectorate, and the Indians had a special interest in it, but the Chinese have maintained, for more than half a century, that Tibet is a part of China. There were Chinese officials in Lhassa, and Tibetan dignitaries came to Peking to pay respects to the established authority. It is a part of China.

Senator Grosart: And really always has been.

Mr. Gayn: And really always has been, yes.

Senator Grosart: Could you just give us a brief description of the seven trading corporations and how they operate in state to state trade and state to private enterprise trade?

Mr. Gayn: The trading corporations are based primarily in Shanghai and Canton.

Senator Grosart: Could you give us their names—not in Chinese; or give us their areas.

Mr. Gayn: You have trusts which deal in natural resources, in textiles, in raw materials, and so on. In fact, they are part of one great trading network, with offices in the Bank of China in Hong Kong. A person or a firm having something to sell will come to the Bank of China and talk to the representatives of whatever trust deals in that area of business. Then, very likely, he will receive an invitation to go to Canton or to Shanghai to pursue the negotiations. Usually these contacts are timed to the semi-annual, Spring and Fall, fairs in Canton, at which—I have seen one estimate—at which as much as \$200 million worth of business is transacted at a single fair.

Huge numbers of foreign traders come to these affairs. The Japanese may have as many as 600 or 700 representatives. In fact, there is a special hotel in Canton in which they all stay in, in happy togetherness. The others are put in another hotel. The Canadians this year had close to 50 traders come to Canton to buy or sell—mostly to buy. I have met a number of Canadians who have gone into China to do business. They have a number of complaints about the late delivery of orders and the rising prices. Some also complain that after they placed what they thought was an exclusive order with some factory, they found that a competitor has also been buying from the same source.

But I think that these are fairly isolated complaints and, on the whole, the Chinese have lived by their contractual obligations. They offer inexpensive goods, at competitive prices with Korea, Hong Kong or Taiwan.

The difficulty in trading with these trusts is that really they have little to offer that can be of great use to us.

Our purchases in China range between \$20 million and \$30 million a year. There is only a limited amount of bristle or shirts or cotton textiles that we can buy. Even the textiles are of a low grade. This at the moment is China's great handicap in trading with others. She needs credits because she has only limited cash with which to pay for what she buys. China, in the future, will, I think, remain a great market for Canadian wheat. The reason is not that there is a shortage of grain in China but simply that the economics of distribution come into play. It is cheaper to bring wheat of lower grades from Vancouver to Tientsin than it is to move wheat from Honan to Peking and other great coastal cities.

These economic considerations must remain reasonably unchanged for a long time to come. I think, therefore, that we can look forward to continued sales of Canadian cereals.

Beyond that, we enter into an area in which we must be competitive with the Italians, the Japanese, the Germans and the British. It is very difficult to be competitive with the Japanese. They are better organized; they are closer to China; their workers receive somewhat lower pay than do ours; they are enterprising—which is something, I am sorry to note, I cannot say about Canadian Foreign Affairs

traders. There seems to be no great interest in Canada in selling things to China, if only because it is necessary to offer credits. But I also think that our traders are so conditioned by the vast American market, which is so near to them, that there is little desire to deal with minor markets such as China.

Senator Grosart: Would you say that the present "closed door" policy of China stems more from the traditional Chinese sense of superiority, the Confucian concept, or from Marxist materialism? I say that because we have had in the history of China an open-door policy, a closed-door policy, an open-door policy. Is this just a phase or is it something that is going to last a long time?

Mr. Gayn: China's policies are conditioned by more or less the same type of factors that condition ours. I think Canada and the United States at the moment are going isolationist. There is a tremendous inwardness in the two countries, a preoccupation with domestic problems at the expense of external problems. This is what you had in China in the periods when she walled herself off. But there is the added factor of Marxist philosophy. The Chinese will extend heavy aid to countries which may not be able to repay because they may wish to encourage a revolutionary regime, or because they may desire to persuade other uncommitted or revolutionary states that China's helping hand is always there. In the past few months, China has committed \$400 million to the construction of a railway in Zambia. This may not be an economic proposition, but it does establish China very solidly in the heart of Africa. Politically, this is a very important Chinese move, which recalls the great debate the West had ten or 15 years ago over the building of the Aswan Dam in Egypt. The Americans refused to do it. and the Russians agreed to help, and the result is that the Soviets are now entrenched politically in Egypt.

Senator Grosart: I have one short supplementary question to ask. In my day in China one of the great problems there was opium. In Canada and the United States today it is marijuana. Is the opium problem getting under control in China today?

Mr. Gayn: As far as I know, opium is not grown in China except for the border regions, in the extreme south, where in the wilderness it is possible for isolated peasants to grow and sell it across the border to Burma to smugglers. These come all the way from northern Thailand to buy it. I might add that the drug is moved under the escort of former Chinese nationalist troops who decided not to go to Taiwan but to remain in these profitable pastures.

Senator Grosart: Have they actually controlled the opium problem, because at one time opium was the curse of China? I can remember as a youngster travelling from opium refuge to opium refuge.

Mr. Gayn: You were a precocious young man. I can perhaps match my memories for yours. I remember standing in the late thirties on the Bund in Shanghai and

watching crates of opium from Szechuan being unloaded under the protection of soldiers. This is not true today. There is no addiction in China now.

China is a tremendously impressive country. One finds there social discipline. The young people are dedicated, by and large; at least the young men I know. Occasional travellers come back with tales of discontented youth, and I can see why there might be dissatisfied young men and women. But throughout all my travels in Communist China, I have been impressed by the discipline and dedication and the simple ways of living I observed. Addiction today is not one of the vices.

Senator Grosart: This is most interesting having regard to their former problems of addiction in view of the fact that we are told here that marijuana and addiction to other drugs are here to stay, and there is nothing we can do about it. If China has eradicated opium addiction, then there is hope for us.

Mr. Gayn: Well, as you know, political solutions of a certain kind were employed in China as the cure for addiction. I don't know what solutions you would have to offer here, senator.

Senator Grosart: Perhaps the War Measures Act.

Senator Croll: Would you take a minute, Mr. Gayn, to give us some idea of the political structure in China?

Mr. Gayn: The political structure has become a little more complex in the past four years. The Communist regime was out of power between 1927 and 1949-for 22 years—when it functioned only in so-called "liberated areas." Since 1949, the Chinese have been under the control of what has been thought to be a monolithic party, led by a harmonious group of leaders. The Chinese Communist Party at its highest point had something like 17 million members, plus about 30 million members in the Communist youth organization. Then, in 1965, Peking saw a great debate, really an historic debate comparable to the one between Stalin and Trotsky in 1927. The debate revolved around the course China must take in the future and the methods she must employ to arrive to the goal of Communism. In this debate, Chairman Mao found the other Communist leaders joined against him. It, therefore, became essential for him to destroy that leadership. This is what he proceeded to do in the course of the cultural revolution. He employed the young people of China, the Red Guards-millions of them-as his striking force, and he has achieved this end. The communist leadership has been destroyed and the party itself has been shattered. Today, it is being rebuilt. But because the party machinery which held the country together was in a shambles, it became necessary to find another force that could hold the country together. This force was the army. So today you find that out of 29 provinces and administrative areas in China, 23 are governed by revolutionary councils headed by generals. The army, in effect, holds the country together and ensures a smooth administration. Once the party is rebuilt-and the process is very slow because it involves an endless series of compromises between provincial pressure groups

-once the party is rebuilt, I think the army will retreat to the back row. But the army will always remain there to keep the country together, and to see to it that the right kind of leader comes to power in Peking. Today, in the politburo of about 21 persons who govern China, 10 are military people. So the division is about 50-50. There is in each province a revolutionary committee which theoretically represents the army, the party and what is known as the revolutionary masses—these are the people who came up during the cultural revolution, the younger men. In effect, the revolutionary masses have now been pushed into the background. They are too young, too untested, too exuberant, and this cannot be tolerated when the nation is trying to rebuild itself and progress economically. So what you have now is the military people at the head, working closely with the survivors of the party organization, who are there simply because they are competent governors.

This is the national structure at the moment. To the surprise of many of us in Hong Kong, the process of rebuilding the communist party has been very slow. The party congress was held in the spring of last year, so theoretically there should have been enough time to recreate the whole machine. In fact, at this point they do not have the party rebuilt even in the counties, let alone provinces. Obviously it is a very difficult, and slow process.

Senator Croll: I gather the difference, then, between the Russian approach and their approach is that the Russians have gotten down to the grass roots a little further than they have.

Mr. Gayn: No, no, the grass roots organization is there. You will find it in the villages, you will find it in the countryside, but once you get away to the next larger division, which is the country, you do not have it.

There is now a complex organization, in which the channels for forwarding instructions from Peking have been changed. It is still Premier Chou En-lai who runs the state, who administers it; but his orders to the governors in each province do not always go through the old state organization. They now go to the revolutionary committees, which do not appear to be a part of the state apparatus and the state bureaucracy. It is the revolutionary committees which will then not only transmit the orders down but also see to it that the orders are obeyed. It is a cumbersome structure at this point but eventually, some years hence, they will probably return to the old organization which, as you say, is identical with the Soviet organization. In the Soviet Union, you have parallel structures-one, the state, the other the party-and both work very closely together, but it is the party that makes decisions and the state that carries them out.

Senator Croll: Who does the taxation?

Mr. Gayn: The finance ministry. All the ministries are functioning and all the tax collectors are also functioning, but the question is, who makes policy, how is this policy transmitted to the tax collector, and who will see to it that the tax is collected.

For instance, in the past year the peasants have been encouraged to pay a little more than their customary tax in grain. This is for the war reserve. How do you persuade the peasants to pay a little more? They are obviously very reluctant. The persuasion is done by the one or two soldiers—it is literally persuasion and not force—stationed in every village. You will find soldiers today in revolutionary committees in every school, every hospital, every factory, certainly at every commune. The whole system is built on persuasion. The peasant is told, "Do you want to serve the revolution? If you do, then you pay the extra amount" or, perhaps more persuasively, he is asked, "Are you with Chairman Mao or are you against him?" Obviously, Chairman Mao is a great man and you do not wish to be against him.

Senator Croll: You do not mind if I remain a little confused, do you? Let me get at the other thing. In the course of your remarks you indicated that the representatives who were likely to come to China and those already there from Britain, France and others are really for all purposes almost non-persons from the Chinese point of view. Why, then, were they invited to come in, if for all purposes they really serve no purpose there except for show?

Mr. Gayn: No, it is not for show. It is obviously a channel which can be used, if not today then tomorrow. for very serious purposes. The British mission—it is not called an embassy-in Peking has not served such a purpose—except in the last two or three months. One of the great moments of the British mission in Peking in years came at last May Day celebrations when Chairman Mao went around shaking hands with everybody on top of the Gate of Heavenly Peace. He stopped before Mr. Denson, the chief of the British mission and inquired after the health of Queen Elizabeth. This was an unprecedented gesture, one of the first expressions of interest in how she or, in fact, in how Britain is doing. This was regarded as very significant and, in a way, it was. Ever since, the British have been probing to see if there was any significance to it, and they discovered there was. So now we see a very cautious exchange of diplomatic moves. Somehow, British diplomats find it advisable to travel from London to, say, Borneo, by way of China, and they are allowed to do this. And when they arrive in Peking they may be invited to some celebration. or allowed to see a person of their own rank in the Chinese foreign ministry. The rank of the British diplomats so far has been reasonably low, say the Head of the China Section. Therefore, they see men of reasonably low level in Peking. This is one illustration of what happens when the Chinese give a subtle indication of interest in improving their relations with a foreign country.

The French have been much more favoured by the Chinese than the British. I also think they have been much more enterprising. They have been sending very high ranking missions to China, and when you have a high ranking mission, whether it includes a present minister or an ex-minister well-known in China, you find that the Chinese reciprocate by giving these people access

to their leaders. M. Couve de Mourville is not a government leader, but once was, and had visited China in the past. When he came to China just in the last few months, he was able to see Premier Chou En-lai, Chairman Mao Tse-tung and a number of other people, and thus assess the political changes taking place in Peking.

Senator Croll: You said earlier that the Chinese are likely to be our wheat customer for some years, for reasons which you gave—short of money, short of our kind of money. Are there special opportunities for us to provide them with some of our money by buying some of their goods that they have? And are they not likely to look for that opportunity?

Mr. Gayn: They are very anxious to sell to Canada. In my visits to the trade fair in Canton I spoke to officials there and I heard continuous complaints about Canada's failure to buy enough Chinese goods to balance the Chinese purchases of Canadian goods. But the supply in China is limited, and so is the choice. These are primarily goods intended for use in Asia, and especially in southeast Asia. Our demand for such items is very limited.

I think the future—as certainly the Germans and the Italians have found out—is in sales of entire plants to China, whether it is fertilizer plants or fibre plants, but on generous credit terms. Both the Germans and the Italians keep the nature of their contracts a deep secret but the rumour is that the Italians will now offer eight to ten years' credit. This depends on your faith in the stability of the Chinese political system. I have great faith in that stability. Therefore, I would not regard eight to ten years as being an unreasonable time for credit. But there has perhaps been a lack of ready funds in this country, or an inability to persuade the Government to guarantee such credits to the Chinese. This is something that I feel should be considered by the Canadian Government now. Now that the doors are slightly open, we can move in and talk about an increase in trade.

Senator Croll: I gather that from the Canadian point of view they are likely to help the trade people a little more than they would the journalists to get freedom in China.

Mr. Gayn: Beyond any doubt, senator.

Senator Croll: One more question: How serious is the censorship?

Mr. Gayn: There is no censorship. I worked in Peking for a period. I sent all the dispatches I wanted to file. If my reports were read by censors, which is possible, I never felt it.

The censorship is in your mind. You have to be very cautious because if you are not, then you will find that your visa is not extended. So, as a result, some of the correspondents who are stationed in Peking feel it necessary to provide the most innocuous coverage of China: "How I went to the Great Wall" or "Today the first snow fell in Peking"—stories of this type. I do not think it is necessary to be quite that innocuous. It is possible to cover China with considerable freedom, and the Chinese will allow this freedom to you, provided your writing is not tinged with hostility.

Senator Carter: I would like to come back to Senator Croll's earlier question, Mr. Chairman.

Mr. Gayn, you have emphasized the limited usefulness of our delegation and other delegations in Peking: that they are restricted in their travel; that they have limited contact with the leadership, with the elite, and even with the man on the street; that it will not make any or very much difference to our trade because we are not doing too badly if we want to trade; and that it will not influence relationships between the United States and China. You have listed all these negative things, and yet you say you hail it as a great blessing and say it is going to be of tremendous benefit. I would like to know what benefits you have in mind.

Mr. Gayn: I have emphasized that the benefits are intangible. I think it important to have lines of contact open to China, whether they be direct lines of contact, as through the opening of embassies, or indirect, through the United Nations. If China, at any moment, decides that she wants to open her doors and windows, it will be possible for the Chinese to come to the Canadian Embassy, and say, for instance, "We should like to have cultural exchanges." It is true that this can be done through other channels; there are always other channels. The Chinese and the Americans, for instance, can transact business of all kinds through indirect channels, but those are far less convenient and far less efficient.

China is a great power. Now, when we speak of superpowers, we count two. I think that China already, with or without nuclear weapons, belongs to this circle. I think it is impossible today to consider any major developments, especially in Asia but even in Africa and possibly in Europe, without taking into account China's wishes or objections.

If we are to be fully aware of what the Chinese wish, an embassy is useful, for through it the Chinese can indicate their views and positions. This is a sort of ritual, highly ceremonial and very diplomatic, and is perhaps not the procedure that ordinary human being use, but if the Chinese wish to indicate, say, to the British that they desire to have embassies reopened in both countries, they will send the Deputy Minister of Foreign Affairs to a reception, and he will say, "We have had diplomatic relations for 20 years. Is it not odd that we have not yet formalized them?"-period, end of the sentence. This is already an indication to the British diplomats that the Chinese are interested in improving relations. This hint is immediately pursued by the British. British diplomats will talk to the Chinese in London and in Hong Kong, and they will find a way to talk to them in Peking. I am certain that within six months the two embassies will be re-opened. The Chinese desire to have the British embassy in Peking not for trivial reasons but because they will want to make some use of it for communicating with the British government.

The Canadian embassy will be there and it should serve a useful end. It does not represent a great expense. It is there, if not for present use, then for the future. I emphasize the limitations on the usefulness of the reopened relations only because of the exaggerated assumptions being made in this country. The Canadian embassy

in Peking cannot perform miracles; it cannot do more than the embassies of other nations; in fact, it cannot do as much as some of the other embassies, such as the French one, because France looms much more important in Chinese eyes than Canada does.

It is necessary to emphasize that Canada's importance is relative, that Canada is not a great power, that Canada's importance to the Chinese is marginal; but even if it is marginal, it is still significant. If you have an embassy there, this marginal importance can be put to good use. I do not know if I am answering your question. These are intangibles, but they are important ones.

Senator Carter: Yes, you are answering in a way, but you hail it as a great blessing and something that should have happened years before, and it leads me to think that if it is such a great blessing, for whom is it a blessing and in what way is it a blessing for Canada?

Now let us look at the other side of the coin—the benefits for Peking—because you have said that the Chinese regime is activated by an ideology or system of belief that the Chinese must champion the oppressed against the oppressor, and they will back revolutionary regimes in any country—and you have quoted their getting a foothold in Africa. We have had Maoist literature distributed in Canada, and there is the strong suspicion that part of this trouble in Quebec is based on Maoist revolutionary doctrines. If we recognize Peking, which is of limited usefulness to us, are we not, on the other hand, giving them an entry into Canada which is of tremendous use to them? How do you strike a balance between the two?

Mr. Gayn: There are two ways of answering your first question. One is in a positive way. I said that when the need arises for contacts then the embassy in Peking can be put to use.

I can also answer that question in a negative way. Assume that Canada, France and Britain, and some of the other countries, do not have embassies in China, and do not have relations with her. China is then isolated. Is it in our national interest to have a great power like China walled off?

It is not in our interest to have China feel that she is under a siege. It is not to our advantage to have China constantly on the defensive, and becoming a kind of fortress China. This could be a most harmful thing to the world, and to us as part of the world. This is the answer to the first of your questions.

The answer to your second question is that I have met Western Maoists in Western Berlin, in France during the riots two years ago, and in England, and I have met a few of them in this country. I think these Maoists do not have the slightest notion of what Maoism is. What they accept in Maoism is the idea of a violent protest or a violent revolution, but there is a great deal more to Maoism than violent protest. Most of the Maoists, perhaps all of them, that I have met, have never read Mao's works. They do not understand that Maoism is applicable to a certain economic level of society; that it cannot be applied in the West. I do not think that Mao has ever

suggested that the solutions he has offered to the Chinese people, or to other Asians, are usable in this hemisphere. These people in the West have taken on the label. They may be using chairman Mao's little red book simply because they can find in it slogans that seem to be applicable to what is happening in this country today, but in fact they are not. Maoism is a comprehensive political philosophy, or a political system, or a political ideology, which is meant for the Asians.

I do not fear for one minute the possibility that Maoism might somehow be transplanted on our soil. It is not meant for us. He may have a different idea for the West, but it is certainly not what the Maoists here think it is. I would not fear the arrival of the Chinese embassy here, and the free distribution of Mao badges and the little red books by it. What one has to be disturbed about is the presence of young people in this country who feel they must have symbols of this kind to explain or justify their protest against the system.

Senator Croll: May I at this stage ask what is the difference between the cultural revolution, and revolution as we understand it.

Mr. Gayn: "Cultural revolution" is the name given by the Chinese leaders to a certain phase of the great Chinese revolution which began in 1927. That revolution was meant to change the political system, the thinking of the people, the economic system, the governing of the country.

Mao insists that the Communist revolution is not ended; that it must go on. The cultural revolution was but one incident in this long history of the Chinese revolution, and it represented, in part, an effort by Mao to change the nature of Chinese bureacracy. He had begun to feel that this bureaucracy was out of touch with the masses; that it had become arrogant and heavy handed, and so on.

Senator Croll: Would you stop describing us.

Mr. Gayn: I still have to complete my thought. In my talks with Chinese officials in the provinces I did find them arrogant and heavy handed. The cultural revolution, this violent upheaval, compelled them to change their ways.

The Chinese bureaucrats—and if you wish to apply this to the Canadian scene, that is your right—now spend half of their official life working in the factory or on the farm, preferably working with their hands. The idea is that through contact with the workers or the peasants they will understand that their duty is to serve the common man. When they go back to their desks in Peking or in the provincial cities they will continue to serve the people. This is one of the main themes in China—Serve the people.

The cultural revolution also represented an effort to change the thinking of the young people. Chairman Mao has felt that they have become self-satisfied, that they were pursuing an academic degree that would allow them to have a better job. As a result of the upheaval, a different type of young people is entering the universities. They now come primarily from the villages and the

factories. These youths have already worked; they are adults. Their academic backgrounds may be inadequate, but they make up for that by their desire to serve the people when they leave.

So, this is the cultural revolution—an effort to change the bureaucracy, and to change the direction in which the young people were moving in 1965.

Mao has been quite successful in achieving these ends, but the big question that is being asked by China-watchers outside is whether this change will continue after Mao dies. You can put workers and peasants through university—they may stay only two years or even less at the university, and then they go into the villages to work—but will this sytem of education provide the right kind of intellectual elite that China must have if she is to march ahead into the twentieth century? So far there has been no satisfactory answer to this.

Senator Carter: Senator Croll has asked the question that I had in mind, but I would like to pursue it a little further. You said earlier, and you repeated it, that the main purpose was to break down this monolithic structure that has grown up in the party apparatus, and to re-orient people's attitudes, but was there not more to it than that? Is not a classless society one of the goals of the communists? Do you not think that Chairman Mao, in looking at the experiment in Russia and seeing that as Russia became more and more affluent the classless society became more and more a myth, because while there was not a class society based upon heredity or birth there was growing up a class society based upon function, and composed of scientists, artists, and so forth, and that the country was moving away from a classless society. Do you not think that Chairman Mao saw the evils coming up when the young people were involved in drinking problems and drug problems, and all those things that are associated with the decadent West, and in the process losing their dedication? Was it not to prevent this from happening in China that he felt it was also necessary to break the monolithic structure as well?

Mr. Gayn: You are right, senator. I might tell you about one of the conversations I had with Mao in 1947. In this conversation I began by asking him questions about the future of China, and in his reply, which was very extended—the whole conversation went on for twelve hours, in fact—he traced the history of China. He described the history not in the terms in which we describe it, but in terms of peasant revolutions. He started two or three thousand years back and traced the whole series of these peasant revolts. Each time he described a revolution he would say it had failed because it had poor leaders, because it had no program and because it has allowed itself to be corrupted by the enemy class.

When he came to his own revolution, he said it would survive; it would not be corrupted, because "we know where we are going; we have a program, we have learned the lessons of the past and we have a competent leadership."

In 1965 I went through one of the three great museums on the Square of Eternal Peace in Peking. In this histori-

cal museum I suddenly realized that all the exhibits were arranged to illustrate Mao's belief that China is now going through a great peasant revolution which must not be corrupted in the manner of the other revolutions; once it is corrupted it is lost.

So there have been attempts by Chairman Mao on a number of occasions to correct the course of the revolution so that it followed what he regarded as a straight course instead of being detoured, along Soviet lines, as you know, senator.

In 1964 the Chinese leaders begun a new debate on how to correct the flaws in their revolution, on how to prevent the appearance of the same defects that they felt existed in Soviet society, again as you suggest. The cultural revolution in a way has been an attempt by Chairman Mao himself, and not by the other leaders, who did not wish to have a violent upheaval when American troops were just south of the border, to bring the revolution to its true course.

The Chinese are human beings; they usually react in the same manner as we. However, there is always that extra touch of political philosophy which is very different from ours and which sometimes we find difficult to understand. This political ideology colours all the actions in Peking. But the Chinese will not allow it to stand in the way.

The Chinese feel that Japan is a class enemy, allied with the United States against China. This does not prevent them from trading with Japan. But, on the whole, their thinking is coloured by the conviction that the world is divided into oppressors and oppressed, that within China herself, after 20 years of revolution, there is still a class enemy who is active and dangerous. If the revolution is allowed to be diverted, that means that the enemy has triumphed by corrupting it.

Senator Carter: Does it not logically flow from what you have said that if human nature does not change there will be a cultural revolution every generation or two?

Mr. Gayn: If I may quote from the little red book; it is not really a quotation, but it is a phrase that continually recurs in Chinese political speeches: This revolution will continue "for a hundred, a thousand, nay, 10 thousand years." I can give you no more authoritative answer than that.

Senator Yuzyk: Mr. Gayn, how much is known in China, at least in the upper circles, regarding Canada? In particular, have there been references to Canada in the speeches of Mao Tse-tung or Lin Piao?

You stated that there are two newspapers available to foreigners in Peking; have there been references to Canada at all?

Mr. Gayn: There has been one recurring reference to one Canadian. Chairman Mao a long time ago wrote an essay in memory of Dr. Bethune. This is one of what are known in China as the "three much read essays," which millions in China have memorized. They are short essays of about two or two and one-half pages.

Senator Yuzyk: Was this a tribute to Dr. Bethune and does it put Canada in a favourable light?

Mr. Gayn: It is a tribute, but I am not sure that Canada is ever mentioned in the essay. Dr. Bethune is portrayed as an example to the people of China of a man who had dedicated his life to the service of the people. All the three much-read essays deal with this service to the people.

In my travels in China people would very frequently ask me who I was. I would be sitting next to a Chinese in an aircraft, and he would ask this and I would reply "I am a Canadian". He might then say "Ah, Dr. Bethune." So Dr. Bethune, whatever his virtues were, has served one purpose after his death. He has made Canada known to millions of Chinese.

Apart from that, references to Canada are very infrequent. The Chinese people know very little about Canada. When one explains that he is a Canadian, they might say "Canada; now, please, where is it?" When it is explained that it is the other half of the North American continent, it does not really mean very much to them.

In the past six months there have been a number of Chinese press reports dealing with Canada in fairly sympathetic terms. I assume that these reports had been filed by correspondents of the New China News Agency in Ottawa. They have dealt with the efforts of "American imperialism to control life in Canada," or with meetings of local Chinese and western friends of China convened to sing praises of the Chinese state and of Chairman Mao.

Two of these reports dealt with the visit of a Chinese merchant ship to Vancouver about three or four months ago and with the great enthusiasm this sight had produced among the people in this country and among the American visitors to Canada. I think millions of Chinese now believe that Canada is in a state of subjection to the United States, and is trying to free herself from this domination. They also believe that Canada is favourably disposed towards China. I assume that these reports were connected with the negotiations for the recognition of China.

It will be found that in all the communist countries, and certainly in the Soviet Union, when Canada is mentioned it is either because of great anger against something that has happened here, or because some important negotiations are coming, or because the Prime Minister is coming on a visit. When this happens, there is normally a whole flock of friendly stories about Canada. The reports in the Chinese press belong to these categories.

Senator Yuzyk: Regarding Mao Tse-tung's successor, is it right that Mao Tse-tung indicated that Lin Piao would succeed him?

Mr. Gayn: Yes.

Senator Yuzyk: What kind of man is Lin Piao, and what can we expect of him, particularly when looking at him from the Canadian point of view?

Mr. Gayn: Mao has done more than indicate that Lin Piao is his successor. Marshal Lin Piao's name has now

been written into the constitution of the Chinese communist party as Mao's successor. Lin Piao has worked with Mao Tse-tung since 1927. He led his small force —

Senator Yuzyk: He is quite an old man by now.

Mr. Gayn: He is about 62 now.

Senator Carter: That is not old.

Senator Yuzyk: Not so old.

Mr. Gayn: I might say that Mao Tse-tung was born in 1893.

Lin Piao led his small force into the Chingkang Mountains, where Mao was already operating, and ever since then they have been exceedingly close. They took part in the Long March in 1934. Lin Piao apparently has voted with Mao in the various disputes and debates that had taken place within the politbureau. He is a Maoist and looks at the world through Maoist lenses. Therefore, when he comes to power I do not expect any significant change in Chinese policy.

The crucial question is: how long will Chairman Mao live? In 1965 Mao was obviously recovering from the effects of a stroke; his arm seemed to be disabled; he did not seem to be well, and had difficulty in walking. We in Hong Kong have now seen a number of recent newsreels, shown to us by the local Chinese communist establishment. These show him as an extremely vigorous old man. He may conceivably remain in control for another five or ten years; it is very difficult to tell. If he is in control for ten years, then the political game in China, the game of succession, will change very radically.

Chou En-lai, is now 72 years old, and he is an essential figure in any transition, because he is an expert in the art of governing. Lin Piao himself would be 72 in ten years time, and he is said to be fragile or even ailing. Most of these reports come from the Russians who had had him as their hospital guest for three years in the 'forties; he was dangerously wounded, and then apparently had T.B. What we see in the newsreels, would suggest that he is reasonably well, but he is 62 and is a very slightly built man.

Senator Yuzyk: How does he get along with the army?

Mr. Gayn: He is the head of the army.

Senator Yuzyk: Therefore he has effective control.

Mr. Gayn: He is the defence minister.

Senator Grosart: How does the army get along with him?

Mr. Gayn: He is the defence minister; he is a brilliant general. His record in the civil war has been remarkable. He is accustomed to leading armies of one or two million men. He is one of the great generals of our time. The question, of course, is his ability as a political man. What you find in China, however, is that the political and military roles are interchangeable. Mao Tse-tung himself is an outstanding expert on military warfare. His books on guerrilla tactics are being studied at West Point. Chou

En-lai has the rank of lieutenant general; he has served in the army.

Lin Piao, on the other hand, has served as a civil governor, while also being a military man. Thus, he will not be a novice when he comes to power; he will know how to administer the country. The question is whether he is big enough to replace Mao Tse-tung. Mao Tse-tung is a tremendous figure, not only in China but in the world picture as well, and it would take as tremendous a man to replace him. It is not certain that Lin Piao has the kind of charisma that would enable him to govern in the Maoist manner.

Senator Yuzyk: I should like to ask quite a number of questions, but this one is of particular interest to me, and I think to us here in Canada. Recently there has been published a book by Salisbury, War Between China and Russia, in which he deals extensively with the events in China. Even after reading his book I am not convinced whether he believes that war is inevitable or not. Apparently he considers that it is in the interests of the United States to prevent such a clash in the seventies, and that there will be a sort of rapprochement between China and the United States because Mao and those who are leaders in China have taken a strong anti-Russian imperialist line. What is your opinion about the relations between China and the Soviet Union, and Salisbury's assessment?

Mr. Gayn: I was hoping you would ask the first part without the second!

The Chairman: Why don't you take it in that order?

Senator Yuzyk: You can take it in that order.

Mr. Gayn: Mr. Salisbury wrote his book about a year and a half ago, if not more. I think he was suggesting that the war is coming. At this point the war still has not come; on the contrary, the Soviet Union and China seem to have finally arrived at a formula for co-existing. I think Mr. Salisbury was under the impact of the events of March, 1969, when there were dangerous clashes along the border. He also travelled to Mongolia and saw a great number of Soviet troops, which suggested to him that war was coming. We now find that the Russians and the Chinese have reached an agreement to differ on ideology, while maintaining correct diplomatic relations.

Just last week there was a Soviet trade mission in Peking, and they signed a year's agreement. Their twoway trade in 1959 was nearly \$2 billion, and I think last year it shrank to \$55 million. Under the new agreement we should see the trade on of the rise again. The two countries have now exchanged ambassadors. Most significantly, you will find that abuse, which they have been trading vigorously for two years, has come to an end. In Hong Kong I monitor Soviet as well as Chinese radio stations. Only a year ago, the Soviet broadcasts in the Chinese language were full of the most violent and illtempered criticism of Chinese leadership, and especially of Mao Tse-tung. This has now been stopped. The same is true of China. There was a time when they described Soviet leaders in the most abusive terms and referred to the Soviet Union as social-imperialists. They referred to "the United States imperialism and its chief collaborator." The latter, of course, was the Soviet Union. That formula has now been dropped, and the relations between Moscow and Peking are becoming correct.

Senator Yuzyk: This has been going on and off again and could still return.

Mr. Gayn: Of course it could. I am describing the process that began in July and is still developing. I think that the advantages of correct relations are very obvious to both. Had Russia and China been able to work at least along parallel lines, their influence would have been doubled. They have not been able to do this. There are, of course, limits to such co-operation between the two. They are rivals for the loyalties of the uncommitted and the revolutionary peoples in Asia. They have border problems and they have very serious differences in ideology, which is so important in the thinking of both countries. Therefore, I do not see the two of them returning to the almost idyllic relationship they had back in the early fifties and the late forties,—but they will have correct and even co-ordinated policies in the future. This will make life more difficult, I think, for the United States.

Senator Yuzyk: From what I gathered, Salisbury wrote that there may be slightly better relations between China and the United States in the near future in order to offset the Soviet Union. Do you feel there is any possibility of that happening?

Mr. Gayn: It is all possible, but earlier this morning I suggested that basic changes in the relations between China and the United States are not likely or even possible because their interests are clashing, both as great powers and as political systems. I do not see them coming to friendly terms or even restoring diplomatic relations in the near future. Of course, you will remember that it took the United States 15 or 16 years to recognize the Soviet Government. It is possible that in the future some formula will be found, but only when it is advantageous to both of them and especially to China to have such relations. This will not indicate great amity, but merely reflect the conviction in both capitals that it is useful to exchange embassies.

Senator Yuzyk: I have one last question. In view of the fact that the population of China is increasing tremendously and China, if it is going to expand in any direction, apparently has eyes on territories that used to be under China in some form or another even way back in history and that would include such territories right around Vladisvostok. The border tension is not likely to diminish a great deal in the future. Is it?

Mr. Gayn: I can see no link between population pressure in China and the border clashes with the Soviet Union, nor do I know of any signs that China wishes to acquire territory in order to move its new millions to new territory.

Senator Yuzyk: Has not China or Mao Tse-tung challenged the fact that the Soviet Union has recognized the treaties under the Czarist Government which ceded territories to Russia at that time?

Mr. Gayn: I would think that as practical politicians, and they are, the Chinese know that it is impossible to gain any part of the Soviet Union. They are asking a rather sizable portion of Siberia and central Asia, but there is hardly any likelihood of regaining this territory lost a century ago.

This is an arguable point, but I think that the Chinese population already reflects the efforts to control it. Perhaps the most effective control device they have been using is the effort to pursuade young people not to marry in their young age. Chinese young women believe they should not marry, or they are told they should not marry, until they are 26 or 27 years of age.

Senator Yuzyk: The party imposes that on them, does it not?

Mr. Gayn: Not imposes, but persuades. The pressure is to have girls marry not before they are 26 and young men not before they are 30. Of course the years prior to this age are the most procreative years and as a result the population is apparently increasing at a much lower rate than has been assumed, for instance, by the population experts in Washington.

About five years ago I went to a conference on the subject and one of the top experts in the United States suggested that the population was increasing at the rate of 3 per cent or more a year. Today the Japanese experts think that China's population is increasing at only 1.5 per cent.

Senator Yuzyk: It is cut in half then.

Mr. Gayn: Cut in half, yes, which means the difference between 10 million and 20 million a year. An error of 10 million births a year would represent a difference of 200 million people since Chairman Mao came to power.

It is also my belief that as population pressures grow, a nation finds protective devices. This is what you had in Japan. Japan's population was growing at a tremendous rate until the country was bursting at the seams. The nation then found it in itself to pass the legislation needed to provide the means for curtailing the population. As a result, the population now increases annually at the rate of one per cent. I think that China will also find a way out. I do not think that the population pressures in China are quite as urgent as one might have assumed a few years ago.

As China industrializes, more and more people will find employment in the cities. The process will be slow and painful. There have been suggestions that Chinese agriculture might be mechanized. If you mechanize agriculture, you will leave idle millions of people for whom there is as yet no employment in industry. In the face of such problems, it is better not to mechanize.

Senator Yuzyk: Thank you.

Senator Robichaud: My question has to do with trade and it was partly answered by Mr. Gayn in reply to a question earlier by Senator Grosart. May I ask, however, whether the Chinese in their dealing with Canada would be expected to trade more through state agencies, such as

the Wheat Board, for example, or do they feel free to trade with individual traders?

Mr. Gayn: All Communist states, China included, prefer to trade government to government. However, they have now arrived at a formula for dealing with Canadian private entrepreneurs. China herself operates through state trusts. When a Canadian businessman wishes to deal with China, he can come in as an individual and tell the Chinese what he wants to buy or sell. After that, the trust begins to look into the matter and make the decision. I think that, with the recognition, it will be possible for a larger number of Canadian businessmen to go to Shanghai and even Peking to discuss business deals. The discussions will always have to be with state trusts. There is no private enterprise there at all.

Senator Grosari: May I intervene? You keep using the word "trusts" in connection with these trading agencies. Is this translation from the Chinese?

Mr. Gayn: It is their translation.

Senator Grosart: They translated "trust"?

Mr. Gayn: Yes.

Senator Grosart: What is the Chinese word?

Mr. Gayn: I do not really know the word for it. They have corporations. For instance, one may deal with raw materials, and another one with textiles.

Senator Grosart: To me, as an amateur Chinese linguist, the word "trust" does not ring a bell.

Mr. Gayn: Our meaning of the word is different.

The Chairman: Of course the UK interpretation might have more validity as a trust than the Canadian one.

Mr. Gayn: The Chinese use the Soviet meaning, and in the Soviet Union you deal with trusts.

Senator Fergusson: I would like to say to Mr. Gayn that it is a rare privilege for us to have an opportunity to have him talk to us from his vast knowledge of China. He has been able to answer many questions that puzzled us and he has given us a much better understanding of what China is like today. Because we have kept him answering questions so long, I feel it is an imposition to continue. However there are one or two questions which I should like to put to him.

I would like to pursue the reference you made, Mr. Gayn, to improving lines of contact through possible cultural exchanges. It seems to me that there is no better way of increasing understanding between people of different cultures and different countries than through such exchanges, because even if people cannot communicate orally there certainly is a communication on the level of music and art and dancing. If they can see what different countries have, it does a great deal to improve the relationship between the countries. Through the embassies or missions that have already been established, has there been much of this exchange? You said

there was not much with Britain, but I understood with France there had been some of this communication. Is that so? I would like to ask you also if you think it is possible in the future for Canada to have such exchange?

Mr. Gayn: Such programs were interrupted during the cultural revolution. So far as I know, the only cultural group that has visited China in the last three or four years has been Albanian. There was an Albanian dance company which came and performed. It presented proletarian art, of course.

In 1965 the French had one of their ballet companies visit Peking, and possibly even Shanghai and Canton, and give performances. Of course, the climate at that time was quite different. I think that for a certain period it will be difficult for us to have cultural contacts. What is more likely is that there will be exchanges of scientists, doctors, engineers, technicians of all kinds rather than an exchange of culture.

There is a feeling in China that culture outside of China is decadent; therefore, to put it on display in China would propbably be undesirable. Chinese culture itself has now been confined within Maoist channels. The constant theme is that of the class struggle, portrayed in ballet and opera and everything else. One of the most popular ballet numbers, "The White Haired Girl," deals with a peasant girl oppressed by her landlord. Eventually, she gains revenge with the help of the communist army. There may be many variants, but the theme remains the same. There are not really very many of these now. If you went to the theatre at every opportunity you had, which is not every night, you would see no more than about four or five plays in all and you would see perhaps no more than two movies. That is all that is available now. We see them in Hong Kong. The latest we saw was a film on the Korean war produced four or five years ago but revived now, perhaps because there is virtually nothing else.

Cultural exchanges of the type that we usually consider will come sometime in the future but not at present.

Senator Fergusson: There is another question I would like to ask. I listened very intently to Mr. Gayn and until towards the very end of his talk I did not hear any reference at all to women, although there must be a great many women in China. Towards the end of his talk he spoke about the girls not being encouraged to marry and the story of the white haired girl to which he has just referred. Prior to that there was only one reference to women and that was when he mentioned that there were discontented young men and discontented young women. I would like to ask what is the position of women in China in public life or business life, in literature, in the arts, in the theatre, in the market. Do they take any part at all?

Mr. Gayn: My failure to mention women is no reflection of a lack of interest in women. Chinese women are regarded as equals. They play virtually an equal role in the life of the country. I say "virtually" because in China, as in the Soviet Union, when you get to the upper political levels you will find that the number of women

or proportion of women begins to shrink. Today in the politburo of 21 persons there are two women; one is the wife of Mao Tse-tung and the other the wife of Lin Pia. Even this is extraordinary. Prior to this, there were no women in the politburo.

Senator Fergusson: Are they there because they are the wives of the men or because of what they have done themselves?

Mr. Gayn: I am sorry, I do not know.

The Chairman: It is a remarkable coincidence.

Senator Fergusson: Yes, it is.

Mr. Gayn: In the central committee of the party, which is a very important organization, the number of women can be counted on the fingers of both hands. When you go into industry, the number of women serving as managers is quite limited. On the other hand, the women in China, as in the Soviet Union, loom very important in the field of teaching or medicine. They work, they perform the same labour as men in factories, and certainly in the countryside. I do not know if I have answered the question.

Senator Fergusson: Yes, I think you have. I have a lot of questions but I am only going to ask you one more, because of my special interest. All I know of China is from looking at it across the river from the New Territory. At the time I was there, the refugees were pouring into Hong Kong and some were living in dreadful conditions. Are the refugees still making their way to Hong Kong, or is that over?

Mr. Gayn: There is a trickle coming in. The numbers are not considerable at this point. One does not know how many people get across. Those who are captured by the Hong Kong police are obviously only a small proportion of the people who do manage to escape and lose themselves in the colony. The assumption is that fewer than 1,000 people a month manage to swim across the river or swim across the nearest bay. A great exodus came during a very difficult period in Chinese life about eight years ago, but this exodus lasted for three weeks or four weeks, and then it was stopped very effectively by the Chinese, It was, in effect, allowed by the Chinese government, simply by lifting the restrictive measures along the border. Today the restrictions are stringent. The border is very tightly guarded and to escape takes enterprise and great physical strength.

The Chinese who escape into Macao are returned by Macao to the Chinese within 24 hours. Hong Kong does not return them, if the flight of people remains a trickle. If it ever becomes more sizeable, then Hong Kong will feel that it cannot take care of them. The decision is, I think, dictated in part by the great need for labour in Hong Kong, and this is a steady source. But today you have no great flight.

Senator Fergusson: They were building tremendous amounts of apartment places which were very small accommodations when I was there. The trickle is not large enough to require additional buildings like that?

Mr. Gayn: There are enough homeless people, or people who live in very poor accommodations in Hong Kong, so that an addition of 12,000 people a year would make no difference at all.

Senator Sparrow: Mr. Gayn, you were talking about agriculture and wheat imports into China. I believe you were indicating that China is basically self-sufficient in food. That is the first point. You also suggested, I believe, that China imported wheat because of transportation problems and because that was the least expensive method of getting it. You also stated that Canada could look forward to a continuing sale of wheat to China. Why would there be a continuing sale of wheat? Would it be perhaps because of Canada's recognition of China or would it be simply that we are in a position to be more competitive with China than Australia is or than other wheat-producing countries are? Why are you optimistic so far as Canada is concerned with respect to those sales? Moreover, what do you say Canada can look forward to in the field of exporting to China other agricultural products such as oil seeds or livestock products and that sort of thing?

Mr. Gayn: You have asked several questions, actually.

Senator Sparrow: Yes, I had to get those in or the Chairman was going to cut me off.

The Chairman: You may answer those questions in any order you wish, Mr. Gayn.

Mr. Gayn: First of all, Mr. Chairman, China's production of grain, of all cereals, now runs, according to one western estimate, to slightly above 190 million tons per year.

Senator Grosart: Does that include rice?

Mr. Gayn: That includes rice, yes, sir. The American estimates for the past four or five years have now been found to have been considerable under-estimates. As a result, the figures are being revised both for the past and the present. But the Japanese estimate that this year the Chinese harvest is going to run to about 210 million tons. Others estimate that it may run to 204 million tons. This has been a very good year for China.

Now, China's imports of grain from Canada, Australia—which is the chief source at the moment—and France run to somewhere around five million tons. It used to be a little higher before, but they are decreasing it slowly. Nevertheless, it is fairly steady around five million tons.

What I tried to say before was that this is dictated not by the shortage of food but by the economics of transportation. It is more convenient and cheaper to bring grain from Vancouver, or even from Australia, to Tientsin or Dairen or some of the other ports, than it is to carry it by overloaded rail transport from the interior.

So this is my explanation of why I think China's purchases of grain will continue.

In my opinion China will not be a much larger market for Canadian grain than she is today, except of course in years of famine. But in that regard the Chinese feel they have already brought their irrigation and the whole agricultural system to the point where they need not fear a devastating famine of the kind that they had before the communists came to power.

With respect to sales of cattle, these might conceivably do well. They are interested in increasing their cattle population but at the moment they are not doing very much about it. I have not heard of any great purchases from either Canada or Australia or anybody else. Nevertheless, as China becomes a little more prosperous, she will have the funds needed to purchase cattle abroad for breeding purposes. Certainly, this is one of the items which the Canadian mission in Peking will have to keep an eye on and keep making offers, because we are in competition with other countries, primarily Australia and France.

Was there another question that I missed?

Senator Sparrow: You seemed to be optimistic that the importing of wheat would be favourable to Canada. You seemed to indicate that. Of course, Australia has been a big supplier of wheat to China and I wondered from what you said whether we had some edge on wheat at this point. Are you suggesting that?

Mr. Gayn: No, I think the Australians have had an edge. I am passing on rumours, and cannot accuse anybody of unethical procedures, but after the price agreement broke down, the Australians appeared to be offering wheat to the Chinese at a slightly lower rate than we were. This was regarded as not cricket by Canadians in Hong Kong, but, cricket or not, the Australian sales today are greater than the Canadian sales. Am I wrong, Senator McNamara?

Senator McNamara: They are just about the same. They seem to be dividing the business between Canada and Australia, since France is not a supplier. It was 2½ millions tons for us this year and 2.2 million tons for the Australians. But they have a new negotiation coming up, though.

Mr. Gayn: I left Hong Kong before the last of the Canadian deals was concluded, therefore I do not know much about it. But up to that point I thought the Australians were selling perhaps 10 or 15 per cent more than we were.

Senator McNamara: One year ago they did, but the year before that we were ahead of them.

But would you not agree that in so far as over-all cereal production is concerned China is probably exporting as much rice as she imports in the way of wheat? So that in one way she has a balance of food production.

Mr. Gayn: The Chinese are very astute traders, of course, Roughly, you can buy two tons of wheat for the price of one ton of rice. Therefore, the Chinese find it profitable to export their rice through Canton to whatever markets they can find in southeast Asia, and buy wheat to replace that rice. But the difficulty with that situation is that the population that is accustomed to eating rice will eat wheat only very reluctantly. That is

the great handicap. The Chinese are now engaged in increasing their production of grain at a tremendous pace, and that is being done not only through the increased use of fertilizers and some increased mechanization, but also by trying to double-crop their production of rice as far north as they can possibly do it. They seem to be advancing every year by about 50 miles so that gradually they are creeping north and are, therefore, adding to their production of rice. How far north they will go will be governed by the climate. I do not know just how far north they will be able to move.

Senator Sparrow: I should like to pursue that further, but I appreciate we do not have the time. However, there is one further question I would like to ask. You mentioned talking to Maoists in France, England, Canada and so on. From your knowledge and discussions, do you see an organizational link between the Maoists in France, England, Canada and are they perhaps connected in turn by an organization in China as such?

Mr. Gayn: The Chinese have been successful in setting up communist bodies in opposition to the established communist parties in a number of countries, in Italy, Belgium and some of the Latin American countries. But these groups are still quite weak. Perhaps their major contribution to the enlightenment of the public is the publications they put out. They call themselves usually "Communist Party (Marxist-Leninist)" to distinguish themselves from the un-Marxist and un-Leninist communist party which is friendly to Moscow. Peking's funds are limited, and therefore I doubt if it would finance a world-wide Maoist movement. I think the support is symbolic and comes in the form of badges and little red books, inspirational literature and occasional meetings, but as I said before the Maoists in North America and in western Europe do not understand what Maoism is all about. They are fascinated by the name and by the dynamism of the Chinese revolution. They have created a great myth about what the Chinese revolution is like, and they are guided by this image which they themselves have conjured and which does not necessarily resemble what is happening in China. As for the question you asked me before, I would repeat that I am not very fearful of a future Chinese embassy here or Chinese trading agencies or Chinese cultural groups coming in and seducing a great number of Canadians to their way of thinking because the framework is entirely different.

Senator Laird: China has managed to explode an atomic bomb. Now how does their technological knowledge compare with the technological knowledge of noncommunist countries?

Mr. Gayn: In the nuclear field, you mean?

Senator Laird: In every field.

Mr. Gayn: China has to industries. One of them is the civilian industry which visitors to China are welcome to observe and to tour. In fact, the Chinese take great pride in exhibiting what they have done to western visitors. The other industry which they are now setting up is the defence industry which is sophisticated and advanced,

and in some fields probably on a par with what is being done elsewhere in the world. I know very little about the nuclear field. I assume that the Americans and the Russians have now reached a stage of development with which it would be very difficult to catch up, but sophistication in the production of missiles and of nuclear devices is great in China. Access to this defence industry is obviously denied to the outsider. The civilian industry which you can see, and I have seen a great deal of it in north, south and central China, is to my mind quite undeveloped. I have gone through trucking plants, tractor factories, cable factories, plants for producing gauges of all kinds—and these industries cannot be compared to industries in advanced western countries. Obviously a moment must come, perhaps 10 years from now, when the Chinese technicians will look at their industry and say, "The gap between us and, say Japan is widening instead of narrowing; therefore we must apply more resources, and we must get outside know-how to develop our industry." I think this will be the turning point in relations between China and the outside world.

Senator Croll: Using the term in its widest sense, and I use the term as we understand it in Canada, social services, health, medicine and housing—you have seen it over the years—what do they have in that and how has it improved?

Mr. Gayn: They have everything. They will not allow unemployment even if this should mean having six men clustering around a machine requiring only one or two men. One of the things that impresses you when you visit a factory is the incredible number of labourers. One of the reasons for this is the desire to train the labour force for the future; another reason is to employ people. The cities in the past two or three years have been considerably emptied of this surplus labour force. The workers have been sent to the villages to be provided for by the rural communes.

Housing in urban centres is being built, but at a fairly slow rate because the scale of priorities does not allow for great emphasis to be put on the construction of housing. Medical services are almost free. For instance, I was ill in Peking and I went to what used to be known as the Rockefeller Hospital in Peking. I was required to pay—it was not very much, something like \$3 for the visit and the medicines—but I also noticed that every Chinese who came paid a small amount for the first visit. After that apparently it is free.

The income of the Chinese people is very low. The Chinese worker may be getting no more than the equivalent of, let us say, \$30 a month. Therefore, the prices for services, for housing, for medicine, for shoes and clothing—are kept low. There is rationing in China for cotton textiles, for edible oils and certainly for cereals. Every man is given the amount required to sustain him; an industrial worker or a miner will get the maximum. An intellectual or civil servant will get a lower ration. But it is enough to keep the person healthy, and the prices of these rationed items are very low. It is only when you want to buy something outside of the ration that you will find the prices high, perhaps to discourage people from

getting too much of something of which only a very limited supply is available. But people are taken care of; there is no starvation, unless everybody starves. You will not find a privileged class that lives well while the others live poorly. There is a remarkable equality in China.

Senator Grosart: One final question, Mr. Gayn. How many Chinese are there living outside of China, in South-East Asia?

Mr. Gayn: I am sorry, but I can only make the wildest guess. I would say 10 million. There are three million still in Indonesia. There are more than one million in Singapore. There are three million-plus in Malaysia. There is a small number, a few hundreds of thousands, in Burma. In Thailand it is very difficult to know because of the inter-marriage. Thailand has been one of the more enlightened states on racial relations; the Chinese are not persecuted there. Of course, they are not persecuted in Singapore, which they dominate. I would say 10 million would be reasonably close.

Senator Grosart: Are their sympathies with the Maoist revolution?

Mr. Gayn: I think their sympathies are with China.

Senator Grosart: A good answer!

Mr. Gayn: They come from China; they take pride in the fact that China, which they have known in the past as one of the depressed, second-rate powers, has now become a nuclear power. They are proud of the strength of China, but they are rather reluctant to migrate, say, from Malaysia, to China even though their life in Malaysia today is not necessarily happy. Chinese people who had a difficult time in Indonesia also went to China in limited numbers.

Senator Grosart: Is there an active anti-Mao movement offshore at all? I am thinking of the old Kuomintang.

Mr. Gayn: What do you mean by "offshore"?

Senator Grosart: Say, in Indonesia, Singapore?

Mr. Gayn: No, there is not really.

Senator Grosari: At one time there was.

Mr. Gayn: All these governments, of course, discourage conflict between the chinese nationalists and the chinese communists. It is really of no benefit to these countries to become involved in such a struggle. There are still several thousand Chinese nationalist troops in the border area between Thailand, Burma and a small corner of Laos; but these are now engaged not in anti-communist activity but in much more profitable pursuits. In Indonesia you may find some nationalist activity. You will find it in Thailand, but it is very limited.

Senator Grosart: Was there any overt Mao influence in the revolution in Indonesia? Was that a native Indo-Chinese revolution or was it actively supported from mainland China? Mr. Gayn: Of the many area of my ignorance, this is one. I had had a set of assumptions about the communist coup and the anti-communist counter-coup in Indonesia five years ago. These have now been shaken by what I learned in Indonesia and Moscow. Obviously, much of the information given to me reflects the political bias of the informant, so I do not know how much credence I can give to all this.

I had assumed that the coup of 1965 was carried out by a relatively small group of military men who felt that the generals were leading Indonesia to ruin, that after Sukarno's death they would come to power, probably in a coup, and that they would establish a very tight military or fascist regime. They had carried out their coup on, I believe it was, September 30, 1965. This was led by Lieut. Colonel Untung, and the coup lasted 24 hours. The communist party, was at the command centre of the rebellion.

Senator Grosart: This is the Chinese communists?

Mr. Gayn: No, this is the Indonesian communists.

Senator Grosart: I am speaking of the Chinese communists.

Mr. Gayn: Yes. I am coming to that. Aidit was thought to have been a Peking man, guided by advice from the Chinese. It was also felt that his revolutionary methods in the country were those of China rather than of the Soviet Union. He delivered a number of speeches critical of the Soviet communist party. But my feeling has been that if this had really been a Communist coup, Aidit would have led the tremendous Indonesian communist party into it, and the outcome would have been very different. The Indonesian communist party at the time had 3½ million members. It controlled labour unions and other organizations, with a total membership of about 20 million people. So, therefore, if he wanted to mobilize the whole communist apparatus, this could have been a tremendous uprising. But in fact, the coup folded up overnight and Aidit and some of the other communists fled. They were soon captured in the country side. The day after the Untung coup, the generals staged a counter-coup. They seized power and virtually all the communist leaders were caught and executed.

In the Soviet Union I was told that the coup was in fact led by Aidit; that it was organized by Aidit and another one of his associates. It was kept secret from the other members of the Politbureau and the Central Committee, but it was a communist coup in association with Colonel Untung. I still have some doubts, because Soviet experts would tend to blame Aidit, who was pro-Chinese, for the catastrophe that befell the communist movement in Indonesia.

What you find in Indonesia today is a struggle between two underground communist parties—one which is loyal to Peking and another which is loyal to Moscow. But they are both very deep underground.

Senator Grosart: One gets the impression that there was a definite hope of a Chinese-backed take-over of Indonesia.

Mr. Gayn: In fact, I was in Indonesia about one month before the coup in 1965 and I saw Aidit and the others. At that time there was open talk of a Peking-Djakarta axis, but this was not because of a communion between Mao and Aidit, but because President Sukarno followed a political line parallel to that of Peking. He saw all Asia dominated by this tremendous union between two major Asiatic powers.

Senator Grosart: The reason I raise this question is it is very comforting for me to hear you say you believe China has no ambitions to territorial expansion. This is somewhat contrary to some opinion—I will not say "evidence"—that I have. I find it difficult to believe that China has not territorial designs on Korea and that the intervention of China was as defensive as you appear to think it was.

I lived in Chefoo and Weihaiwei, just across the water there, and it was never the impression I had there from Chinese that I spoke to in my youth, that they did not regard Korea as an essential part of China, in much the same way as they regarded Tibet.

You spoke of the Korean port of Dairen as an import port for wheat. Would that wheat be for China?

Mr. Gayn: It is not a Korean port, sir.

Senator Grosart: No.

Mr. Gayn: On the basis of my experience I can only say that my judgment is more authoritative than the judgment of other people whose works you might have read.

Senator Grosart: May I say that I hope you are correct. I would be inclined myself to put your opinions based upon your experience ahead of the opinions I have just quoted.

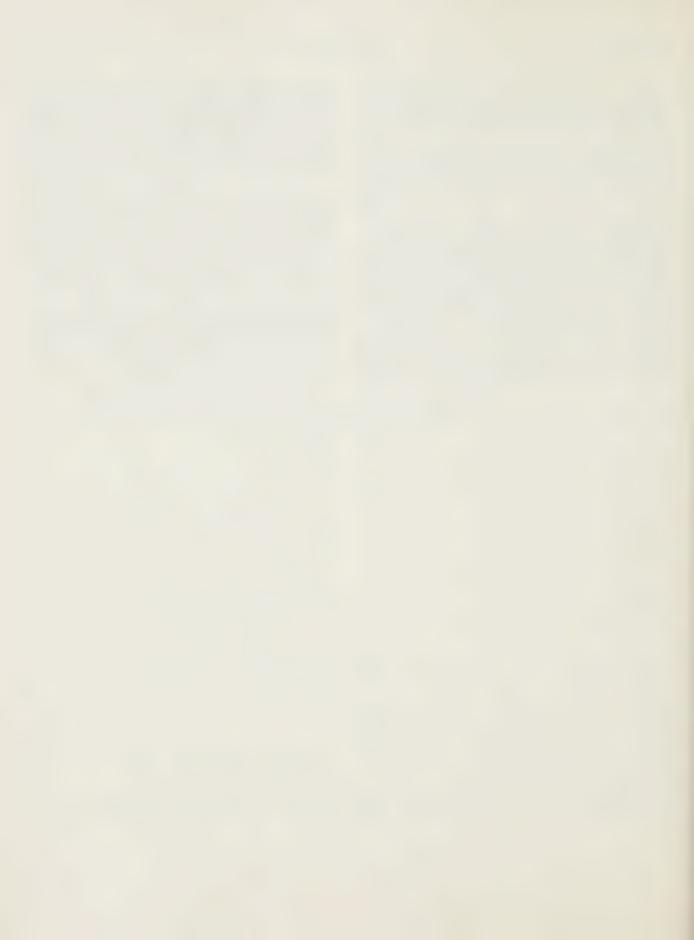
Mr. Gayn: I am delighted with your view of me, sir.

The Chairman: You know, Mr. Gayn, the chairman has a choice of adjectives when it comes time to say thank you. I think that on two occasions I have used the word "brilliant", and I would like to use it again this morning. All the members of the committee will agree that not only your presentation but your answers to the many questions have, in fact, been brilliant.

I should also like to say that we appreciate very much the manner in which you conducted yourself during this hearing this morning. Your answers were obviously based upon a great depth of knowledge, and you gave them in a very lucid and pleasant fashion, for which this committee is extremely grateful.

The committee adjourned.









THIRD SESSION—TWENTY-EIGHTH PARLIAMENT
1970

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 6

JAN 26 1971

WINNERSITY OF TONOMINE Respecting

THE PACIFIC AREA

(For list of Witnesses: See Minutes of Proceedings)

THE STANDING COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman
and

The Honourable Senators:

Belisle McElman
Cameron McLean
Carter McNamara
Choquette Nichol

Connolly (Ottawa West) O'Leary (Carleton)

Cross Pearson Eudes Quart Rattenbury Fergusson Robichaud Gouin Sparrow Haig Sullivan Hastings Laird White Yuzyk—(31) Lang

Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Tuesday, December 1, 1970.

Pursant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3.05 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Carter, Connolly (Ottawa West), Eudes, Fergusson, Grosart, Laird, McElman, Pearson, Rattenbury and Robichaud. (11)

Present but not of the Committee: The Honourable Senators Lafond and Isnor. (2)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

The Chairman (Senator Aird) introduced the following witnesses:

From Canadian Pacific:

Mr. A. F. Joplin, Director of Development Planning.

From C.P. Air:

Mr. Ian A. Gray, Vice-President—Administration. Mr. H. D. Cameron, Vice-President—International Affairs.

From COMINCO:

Mr. G. H. D. Hobbs, Vice-President—Pacific Region.

Agreed—That the background papers, submitted by the above-mentioned companies, be printed as Appendices "D", "E" and "F", respectively, to this day's Proceedings.

Agreed—That a "Price List" of certain aluminium products, which has been submitted by ALCAN, be identified as Exhibit "2", and become part of the Committees records.

The witnesses were thanked for their contribution to the Committee's study.

At $5.35\ \mathrm{p.m.}$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, December 1, 1970

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 3 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, our meeting today will conclude a series of hearings in which we have examined the involvement of various kinds of Canadian corporations in the Pacific region. We will still be talking about "various kinds of corporations" today. As our members have seen from the briefs before us, the Canadian Pacific group of companies covers an extremely broad range of activities. It is also clear that their combined operations represent a very significant element in Canada's overall relationship with many countries of the Pacific rim.

Our witnesses today have come from Montreal and Vancouver to talk about their particular areas of interest and responsibility.

Representing Canadian Pacific, the parent corporation, and sitting on my immediate right, we have Mr. A. F. Joplin, the Director Development Planning. He is accompanied by Mr. R. A. Food from C.P. headquarters in Montreal.

On behalf of C.P. Air we have Mr. I. A. Gray, Vice-President, Administration, who is based in the head office in Vancouver and is closely concerned with Pacific operations. In addition to Mr. Gray we have Mr. H. D. Cameron, who is Vice-President, International Affairs.

Finally, on behalf of Cominco Limited we have Mr. G. H. D. Hobbs, who is Vice-President Pacific Region for that company. Mr. Hobbs has also come from Vancouver.

On behalf of the committee I would like to welcome you all, gentlemen. It is quite obvious that you have gone to a great deal of trouble to present yourselves here today, and it is a formidable array that we have on the platform before us. We have requested Mr. Joplin to lead off, speaking for the parent company. My feeling is that since the briefs are complementary and inter-related, I will then call on Mr. Gray and Mr. Hobbs to give their opening statements. Following that our members will proceed with their questioning, and I have asked Senator Connolly (Ottawa West) if he would be kind enough to lead, after which time, of course, all honourable senators are invited to, and hopefully will, participate in the questioning.

It is my further understanding that each of the witnesses will speak to their respective briefs. They have

indicated to me that they may be about ten to fifteen minutes apiece on their respective briefs, but I think in the interests of order and presenting each of these fairly, that rather than go to an immediate questioning we should carry right on with the briefs. Is that agreed?

Hon. Senators: Agreed.

The Chairman: Then we will proceed. Mr. Joplin, you are most welcome.

Mr. A. F. Joplin, Director Development Planning, Canadian Pacific: Thank you, Mr. Chairman, honourable senators. As a representative of Canadian Pacific I am pleased to have this opportunity to express the views of my company to the Standing Senate Committee on Foreign Affairs. Two additional presentations will be made, specifically on behalf of C.P. Air and Cominco. My part will be concerned with the overall position of Canadian Pacific as a Canadian company operating within Canada and externally in the fields of transportation and resource development. My part will deal with the affairs of the members of the Canadian Pacific family who are not here present, and with our general interests in the Pacific.

Since you are discussing Canada and the Pacific it would indeed be anomalous of a company by the name of Canadian Pacific were not heard from. A detailed memorandum has been prepared and you all have copies of it. I would like to highlight some of the points in the memorandum and as the Chairman suggested we will then deal with questions.

Canadian Pacific was incorporated by federal statute in 1881. From its very inception it was conceived as much more than a railways system. Even before the rail link which joined British Columbia to the rest of Canada had been completed, sailing vessels were engaged and arrived from the Orient bearing tea cargoes and other oriental commodities from China and Japan. Three weeks after the first train had crossed the continent, the 800-ton barque W.B. Flint arrived in Port Moody. Regular service between Vancouver, Yokohama and Hong Kong commenced in 1887 with the chartering of three steamers. Later the company's own ships replaced the chartered vessels: in 1891 with the first of the White Empresses, the Empress of India, Empress of China and the Empress of Japan. Over the years, the service on the Pacific was increased. New and larger vessels were placed in service. Joining the fleet in 1913 were the Empress of Russia and Empress of Asia. As the original vessels were retired from service, larger vessels were added with the Empress of Canada and Empress of AusForeign Affairs

tralia in 1922. The Empress of Japan, which was the pride of the Pacific, was put into service in 1930. This was the era of the famous Canadian Pacific special silk trains which carried Japanese goods across Canada to North American and European markets and the all-red route between Hong Kong and Great Britain.

Cargo ships were introduced as trans-Pacific trade developed. Regular services were operated connecting the Ports of Vancouver, Victoria and Seattle with Honolulu, Yokohama, Kobe, Nagasaki, Shanghai, Hong Kong and Manila. These Canadian services were a very significant factor in the commercial life of the Pacific.

Not only was Canadian Pacific active in the northern Pacific, but also in southern waters. Since 1920, representatives of our company have been stationed throughout Australia and New Zealand. In 1931, Canadian Pacific purchased a half interest in Canada-Australia Royal Mail Lines, which operated two passenger-mail vessels between Vancouver and Sydney, Australia. These services flourished and continued uninterupted until the Second World War when our vessels were supplied to allied governments. With the return of peace, a passenger cargo service was again established in the north Pacific. Unfortunately, this service was withdrawn after two years as Canadian-Japanese trade failed to develop in the way we thought it would, mainly because traffic originating from the west coast of the United States was restricted almost entirely to the US bottoms.

However, four years after the cessation of hostilities, Canadian Pacific Air Lines, recognizing the growth prospects of air service to the Orient, pioneered the service across the north Pacific to Japan and Hong Kong. The twenty-first anniversary of the first flight was observed some three months ago. In addition to the services to the Orient, CP Air has developed routes serving Honolulu, Fiji, New Zealand and Australia.

Overlooked by many Canadians for many years, the tremendous trade and investment potential represented by participation in the Pacific areas has recently become the object of widespread national interest. Indicative of the recognition and attention now being given this area are the comments of Mr. N.R. Crump, Chairman of Canadian Pacific, at the May 1970 Annual General Meeting of Shareholders. I quote:

It is quite possible that the expansion of markets in the Pacific area in the years ahead will give the Canadian economy the same stimulus that development of European markets gave in earlier periods of our history. With modern means of transportation and communication, the vast Pacific, which was once a formidable barrier, now serves as a broad highway linking economies and peoples.

It is Canadian Pacific's view that continuing reduction in tariff and non-tariff barriers to trade is in the best interests of Canda. It is appreciated that the principle of free trade is accepted with varying degrees of enthusiasm in the different economic regions of Canada. However, in the long run, we are satisfied that all Canadians stand to benefit from the resulting economic efficiencies.

Canada stands to benefit both directly and indirectly from the economic development of all Pacific rim countries; directly, in the sense of Canadian exports to a particular country, and indirectly, to the extent that economic growth in the Pacific Rim as a whole will strengthen world trade and support Canadian exports generally.

While it is considered that the entire Pacific area is involved in trade growth, one must look at Japan, the most rapidly growing, as the key in future Pacific development. It is perhaps the leadership of the Japanese economy that has generated boom conditions in Australia and in our western provinces. The prospects for continuing growth in Canada-Japan trade appear to be excellent. The impact of Pacific-related trade is felt most notably in British Columbia and other western provinces which have attracted virtually all of Japanese direct investment.

During the years 1968 and 1969, products from these provinces have accounted for 80 per cent of the total Canadian exports to Japan. This traffic has boosted the Port of Vancouver to the position of Canada's busiest in terms of tons handled and emphasizes the position that the Port of Vancouver plays in Canadian trade. The development of port facilities and the control of the port must continue to reflect the interests of all Canada in this vital service area, as well as accounting for local interests.

Developments within the Pacific area will have a significant impact upon the evolution of Canadian Pacific's planning, and the determining of its priorities. An analysis of the geographical distribution of Canadian Pacific group's assets and operations will reveal that:

- (a) CP Rail's transportation plant is favourably situated in western Canada so as to fully participate in the movement of bulk commodities destined for offshore markets.
- (b) CP Air has a Pacific-oriented route structure, and is headquartered in Vancouver.
- (c) CPI's extensive land and natural resource holdings are concentrated in western Canada. CPI units, such as Pacific Logging, Fording Coal, and Cominco have substantial and growing business connections with Japan.

It should, therefore, be apparent that Canadian Pacific is in a favourable position to participate in trade and investment activities related to the Pacific area.

I should like to deal with each of the Canadian Pacific family in a very brief way. CP Rail carries substantial quantities of a broad range of agricultural products and industrial raw materials to Vancouver for subsequent export. Included here are items basic to the economic wellbeing of Canada, such as wheat and other grains, coal, sulphur, potash, lead and zinc ores and concentrates, copper concentrates, liquid petroleum gas, and wood pulp. At the same time, CP Rail trains moves eastward from Vancouver Pacific area products. In order to generate additional traffic from Pacific rim countries, CP Rail maintains freight solicitation and representative offices in Hong Kong, Tokyo, and Melbourne, Australia.

As a result of the economic geography of western Canada, CP Rail is the predominant rail carrier of prod-

test destined to or originating in the Pacific rim area. CP Rail has, over a considerable period of time, nurtured a slowly growing volume of traffic, and now looks forward to the more exciting growth promised by rapid Pacific-related development. CP Rail is, therefore, concerned that it should now be facing applications before the Canadian Transport Commission whereby it is proposed that millions of tons of Canadian coal destined to Japanese markets would be shipped over United States railroads between Canadian mines and the Port of Roberts Bank, B.C. This would deny to Canadians the full benefits of this growing trade with the Pacific rim at a time of tremendous growth.

Present contracts for the movement of coal are unquestionably substantial. It is anticipated that further contracts will be consummated. Nevertheless, with relatively minor modifications, the CP Rail system can be expanded so as to accommodate all foreseeable volumes. There is no doubt that CP Rail will be fully capable of responding to this challenge, and we are actively progressing our planning to ensure this.

CP Air, of course, are presenting their own submission.

Within the enterprise covered by Canadian Pacific Investments are many operating entities who have continuing and expanding links with Japan and with the Orient.

Mr. G. H. D. Hobbs, Vice-President, Pacific Region, of Cominco Ltd., is here today to present that company's brief.

It will be of interest to you that Pacific Logging and the Japanese firm of C. Itoh and Co. Ltd. have constructed a \$3 million lumber mill jointly at Nanaimo in Vancouver Island. Pacific Logging has contracted to deliver 40 million board feet of timber per annum to this mill. The entire production is exported directly to Japan.

Much of Canadian Pacific's interest is associated with the developing markets for export coal. Fording Coal Limited, a company jointly owned by CPI and Cominco have contracts for delivery over a 15-year period of 45 million long tons of bituminous coal to the Japanese steel industry.

In addition to Fording Coal, other properties are under exploration and development by the mineral exploration arm of CPI—CanPac Minerals Limited. In order to improve the competitive position of Canadian raw materials, Canadian Pacific continues to study and develop additional modes of transportation technology, and to this end, Canadian Pacific has joined with Shell Canada Limited to establish ShellPac Research and Development Limited, to undertake further work in research and development in the field of solids pipelines.

Cascade Pipe Line, a wholly-owned subsidiary of Canadian Pacific, has under development a 490-mile pipeline to carry coal in slurry form to Roberts Bank for export to Japan. A group made up of representatives of Cascade Pipe Lines, the federal Department of Energy, Mines and Resources, and ShelPac visited Japan last summer to make a preliminary technical presentation the Japanese steel industry. In October, a group of technical officials of Japanese steel companies visited Canada to inspect the proposed route, and a pilot plant for the

reconstitution of slurry coal, to witness the preparation of commercial coke from slurried coal, and to discuss the project with representatives of Cascade, ShelPac, and the Department of Energy, Mines and Resources and Stelco. Canadian Pacific fully expects that slurried coal will meet the technical requirements of the Japanese steel industry, and that Canadian Pacific will be in the forefront of this new transportation technology.

Canadian Pacific Consulting Services Limited, a wholly-owned subsidiary of Canadian Pacific, functions internationally as a broadly-based engineering and economic consultant to government and industry. Canadian Pacific Consulting Services welcomes the recent expressions of increased Canadian Government interest in the Pacific, and the implications for Pacific area development assistance projects. The consulting company welcomes the proposed risk sharing system for furnishing feasibility studies, as described to this Senate committee on November 4th by the Minister of Industry, Trade and Commerce.

Shipping—Canadian Pacific's bulk shipping subsidiary has purchased its entire fleet of ten ocean-going vessels, totalling some 860,000 tons dead-weight, at a cost of U.S. \$76 million, from Japanese yards. A number of those vessels currently in service are engaged in Pacific area trading. The "Pacific Logger", a 16,000 TDW log and timber carrier, is chartered to C. Itoh and Company. The "T. Akasaka" nd the "W. C. Van Horne", 57,000 TDW bulk coal carriers, are under contract with another Japanese trading company, Marubenilida, for the majority of their capacity.

CP Telecommunications offers, jointly with Canadian National, a wide range of communication services, including telex. This CN-CP facility, linked with a world-wide network, permits the Canadian subscriber to communicate with other terminals around the world, and throughout the Pacific area.

Canadian Pacific welcomes the apparent intention of the Canadian Government to emphasize a more active role for Canada in the Pacific Rim area.

Canadian Pacific welcomes the Government's decision to consider the establishment of a Pacific Economic Advisory Committee, particularly as it concerns itself with investment possibilities in the Pacific area.

Canadian Pacific welcomes the establishment of formal diplomatic relations with the People's Republic of China, and is hopeful that such relations will in turn lead to closer commercial ties, including the establishment of a bi-lateral commercial air agreement.

Canadian Pacific supports the efforts of the Government directed toward lowering or removing Japan's non-tarif barriers to Canadian exports, and to opening up opportunities for Canadian investment in that country.

In conclusion, it is anticipated that Canadian Pacific's interests will be increasingly focused on the Pacific area and while trade with the rest of the world will always be important, our interest in the Pacific area will represent an increasingly larger share of Canadian Pacific's total

involvement. The geographical distribution of Canadian Pacific group's assets and operations is such that the company is well situated to participate in the Pacific area trade and the Pacific area development and investment opportunities.

Canadian Pacific, therefore, welcomes these discussions as evidence of an awakening interest in the Pacific and is pleased to have this opportunity to present its views. Canadian Pacific, since its inception, has recognized the importance of the Pacific and the Orient to Canadian trade. As this area looms larger on the Canadian scene, we want to extend our historical association and to participate to an ever greater degree in all aspects of this investment and trade. At no time in the eighty-five years of involvement has the prospect seemed more bright.

The Chairman: Thank you, Mr. Joplin. Honourable senators, as I indicated at the outset, we intend to do these in series. I would now turn to Mr. I. A. Gray, Vice-President, Administration, from the head office in Vancouver. I would ask him to speak to the C.P. Air brief. I believe that all honourable senators have had this C.P. Air brief since this morning, and I would appreciate if he would now proceed.

Mr. Ian Gray, Vice-President, Administration, C.P. Air: Thank you, Mr. Chairman. Honourable senators, I believe the brief is pretty straightforward. I do not think it needs too much explanation. I thought I would bring to your attention particular paragraphs or sections which could be expended upon at this time and this will help you understand the import behind it.

In the first section, on the history of C.P. Air, there is nothing too startling in the historical sequence. However, it is a good idea to emphasize at this time that in the 21 years we have been operating in the Pacific area it is only in recent years it has become economically viable. It is a long-term investment and we are pleased to see that the developments are now becoming satisfactory in all respects.

I would ask you to make a small correction on page 8, which is a table. In each first column, Under Cargo and under Mail, would you change the "£" sign to pounds weight, "lbs.".

On page 3, I would like to make a point concerning the Canadian flag carriers and the relations under which they operate in respect to the bilateral agreements, just to give you a feeling for the limitations.

Our service to Australia is limited to one flight a week and we cannot carry more than 140 passengers maximum on that flight.

With respect to New Zealand, at the time that New Zealand revoked the bilateral agreement with Canada in order to protect its own flag carrier, we had then been developing service to New Zealand for 19 years, and it was a significant loss to us to have to step back from that operation.

With respect to Japan, we have a limitation of four flights per week, with a maximum of 250 passengers for each flight.

This is just to give you a little perspective on the limitations that the Canadian flag carriers experience.

With respect to bilateral agreements that Canada should and does negotiate, they are of great importance to us in the long run as Canadians, because we do not know what the future benefits will be with respect to any bilateral agreement. It is in Canada's own best interest to negotiate with those countries that have significant cultural and economic relations with us to achieve a basis for developing traffic.

Canada cannot just allow these opportunities to be neglected. It is our opinion that Canada should negotiate these bilateral agreements as soon as possible, otherwise the price of entry into these bilateral agreements may increase as the value becomes more and more apparent to other countries. We should do this as soon as possible in an order of priority that serves Canada best.

Referring to the section in our brief on tourist industry growth, I think it is of interest to realize how important the tourist industry is to all countries. In the *Aviation Daily* of November 24, which is an aviation information service we receive, I note that a Mr. C. Washburn, Assistant Secretary of Commerce for Tourism, spoke to the Institute of Air Transport in Paris. The following is a paragraph from this report:

The Nixon administration has sent to Congress and obtained authorization for a Presidentially-appointed commission to review national travel resources and recommend ways in which they might work together, he said. "This commission is long overdue. In the U.S., advance planning on a broad industrywide scale has been sporadic at best. There has been no real coordinating device or forum where firms involved in transport and tourism could exchange ideas and formulate joint plans—or define the scope of mutually-beneficial research.

The United States, of course, are trying to adjust their balance of payments and are trying to attract as many tourists as possible to their country from the affluent countries—from Canada and from western Europe. They are doing this to such an extent that they are sending out direct mailing pieces from the Department of Commerce, Tourist Development Branch to Canadians enticing them or asking them to come to the United States for a winter holiday.

The developing countries in the Pacific want to attract tourists to their countries, and therefore they are in competition with the United States for the Canadian tourist dollar and for the Western European tourist dollar. It is important, therefore, that these developing countries in the Pacific receive as much assistance as possible from Canada in the development of their tourist industry. We have a lot of knowledge and we should be trying to place it at their disposal. It is in our own best interest.

On page 11 I point out that we can only develop our knowledge of these regions by intensive market analysis. These intensive market analyses of course are required before you enter into bilateral negotiations and are also important in defining the tourist market. I would like to

point out that the statistics that are available on tourism or traffic flows are very unreliable. The published data do not conform to any fixed base, and come from various sources. Different countries produce statistics in different ways. Therefore, if you sit at home in Canada trying to develop a market analysis, it may be grossly in error. It is important that when we do our research we do it on location and that we do invest the time and money to ensure that we have a proper analysis completed.

On page 19, in the section devoted to our comments on the student travel scholarship program, I would just like to comment that CP Air does intend to expand its program in co-operation with the appropriate government agencies. So far we are just beginning in this area. We believe that it is a step in the right direction.

Also in our own training establishment we are prepared to assist in the basic technical training of mechanics, flight crews, flight attendants and traffic agents where appropriate, providing that the carrier we are working with is using the same type of equipment. But problems do arise. After you train them in the schoolroom you have to put them on the job to give them practical experience, and there we may run afoul of the contract terms of our union agreements. So it is not too easy, sometimes, to accomplish what we wish to do.

Those are just some of the highlights of the brief, Mr. Chairman, forming some of the background I thought you should have in support of the brief.

I would like to make a correction on the last page of the brief. The word "Canada's" has been omitted from the second line of the second paragraph. It should read:

Twenty-one years of air service in this area has made CP Air a valuable instrument for the advancement of Canada's interest.

Mr. Chairman, consistent with keeping these discussions as brief as possible, I believe I have covered the ground reasonably well.

The Chairman: Thank you very much, Mr. Gray. Thank you for speaking to the brief.

We will now hear from Mr. G. H. Hobbs.

Mr. G. H. D. Hobbs, Vice-President, Pacific Region, Cominco: Honourable senators, I appreciate the opportunity to appear before you and I hope that Cominco's experiences in certain of the Pacific rim countries can be of some assistance in your deliberations.

I know that you will have the benefit of hearing from a number of experts in many different fields of activity. By doing so you will be exposed to many aspects of this very diverse region. It is our intention, therefore, to concentrate on a limited number of significant bilateral business relationships that Cominco has in some of the countries in this area.

These relationships have arisen out of specific business opportunities rather than from a corporate "Pacific Policy". I do not believe that the Pacific Ocean itself is a sufficiently integrating influence that a coherent "Pacific Policy" can ever be enunciated to adequately cover business or government relationships with all the countries washed by its waters.

There is also a possibility of misunderstanding in the use of the new popular term "Pacific Rim". A Japanese would see it as the whole clockwise circle from New Zealand to Chile, including the Pacific Islands, with Japan at the focus. An Australian would consider his relationships with the "Near North"—from Timor to the Kuriles—to be quite distinct from his dealings with North America, New Zealand, the Pacific Islands or with Latin America. For the purposes of this hearing we are asked to consider South East Asia, Australia, the Pacific Islands and Canada as being our "Pacific Rim". There is a danger of misunderstanding in the use of the term if it is not first clearly determined whose Pacific rim we are talking about.

Before drawing any conclusions from Cominco's experiences, it might be helpful if I gave a very brief digest of the major points covered in our written submission.

Cominco is a Canadian company with assets of about \$450 million. It employs some 10,000 people. Its business is based on mineral resources and its main products include lead and zinc; iron and steel; mercury and silver; fertilizers and potash. It manufactures metal products and operates hydro-power and wharf facilities.

Cominco's principal operations are in western Canada, but it also has plants in the United States and joint ventures in Japan, India and the United Kingdom. The company has an active exploration program covering, not only Canada and the United States, but also many countries around the world.

Cominco's involvement in what has now become known as the "Pacific Rim" dates back to its first year of lead production—1902. In that startup year, 1,000 tons of lead were sold to China and Japan, an almost trivial amount compared with today's production, but it did represent 20 per cent of the output at that time. Similarly when fertilizer production began in 1932, half of the output was sold to Pacific rim countries.

To illustrate the changes that have taken place in Cominco's involvement there, it is convenient to divide the Company's 70-year history into two roughly equal periods.

Prior to 1939 Europe was the principal market for Cominco's metal production. Sales in the Orient were approximately 20 per cent of the total and were roughly equivalent to sales in the United States.

Subsequent to 1939 the sales pattern changed. Starting with the Second World War the United States need for metals grew to the extent that virtually the Company's entire production could then be sold in the preferred markets of Canada, the United States and Europe. India became an important individual customer later in this period, but sales to the Orient never regained their former significance.

In the late 1950's the Japanese need for additional raw materials stimulated Cominco to enter this growing market with new mine production additional to that required to satisfy its markets for finished metals.

The rise of Japan to its present position as the second largest industrial power in the free world has provided

additional impetus to Cominco's interest in this area. The Japanese economy has grown ten-fold in less than 20 years. While recent rates may not be sustained indefinitely, we believe that their forecast of 10.6 per cent growth per year for the next six years is not unrealistic.

Although not reported to the same extent, growth rates of other nations in the arc between New Zealand and Japan have also been higher than average world figures. Moreover, we believe that this area, as a whole, will sustain its present growth rate of some 10 per cent per year for some years to come. Admittedly, some of these nations do start from a very low base.

As these growth rates are substantially greater than those of the United States, Canada and most European countries, the potential of this area as a future market for Canada's goods, investment or capability, is obvious. It is also interesting to realise that the total import bill for these nations as a group is roughly equal to that of the United States—about \$35 billion a year.

Much of the trade originating from the Pacific rim countries remains within the Pacific area itself. Increasingly the business decisions regarding this trade are being made within the area. This is the major departure from the traditional Atlantic-European concept of the business world where Pacific affairs were considered peripheral to the main stream of world trade. Thus, the traditional view of a two-part world, East and West, with trade between them controlled by European companies is gradually dissolving. New institutions are emerging as points of business decision are shifting into the Pacific rim countries.

During this post-war period, Japan developed a growaing appetite for industrial raw materials. For example, in a 20-year period, Japan's requirements for:

	-			
Lead		increased	10	fold
zinc		increased	12	fold
Coal		increased	15	fold
Copper		increased	18	fold
Iron ore		increased	25	fold

I find this an interesting tabulation.

For Japan to import its crude material at the lowest possible stage of manufacture was in part justified by logistics, but in many cases it was a deliberate matter of national policy, as exemplified in their tariff and other restrictions against products at a higher level of processing.

Some of these restraints have been very real. Ostensibly, a 5 per cent *ad valorem* tariff on any non-ferrous metal would seem relatively insignificant, but combined with duty free entry of ores and concentrates the burden of this protection falls entirely on the smelting step. The 5 per cent tariff can represent as much as 40 per cent of the treatment cost in converting raw materials to finished metal. In many cases this effectively precluded economic processing elsewhere.

Japan's labour shortage and its new concern with pollution could give impetus to revising the policy of having all processing performed within the country. It is possible that Japan will have to shift progressively to the manu-

facture of products with a higher and higher value-added content.

Senator Connolly (Ottawa West): Mr. Hobbs, would you mind marking that portion of your brief?—because I would like you to repeat it at a later time, during the question period.

Mr. Hobbs: Very well, senator.

Japan's imports could, therefore, become progressively more processed, for it might have to import materials at a high level of manufacture in order to use higher internal priced labour and other resources more effectively. This could open up new opportunities for Canadian exporters.

The Japanese move towards the liberalization of imports and the encouragement of investment abroad, stimulated by the strong balance of payments position, provides opportunities also for the future development of trade and joint investments.

It is worth noting that the Japanese business methods differ substantially from Atlantic traditions. In North America, the tradition is based on competition; in the East it is based on cooperation. For Canadian resource companies the Japanese trading companies, with whom they conduct business, present an organizational imbalance between the individual sellers and the combines of buyers.

Behind each major trading company is a gigantic industrial empire containing some hundreds of firmsl Each trading company is a powerful organization in its own right; but on major matters of foreign trade, such as the import of basic raw materials, it would appear that policy decisions are made at even higher levels. In this role the Japanese trading company becomes almost a negotiating arm of Japan.

Unfortunately, Canada has no such trading companies. In my opinion, every encouragement should be given to creating them. Laws designed to apply to domestic situations must not be permitted to impede Canada's trade with countries where combines are the norm in business dealings. Our "anti-combine" philosophy is completely irrelevant in export trade.

The opening of displomatic relations with China can lead to a reviral of trade opportunities. But here again, the method of trading could be different; barter deals may become common. The lack of appropriate trading institutions could put individual Canadian companies at a disadvantage. It would be unfortunate if Canadians had to continue to rely on Japanese, European, U.K., or U.S. trading organizations in order to transact business effectively in any third country in this Pacific region.

The importance of the long-term sales contract in facilitating resource development which, in many cases, has led to more broadly based economic development, has not always been fully appreciated outside the mineral industry.

The typical mining development of this decade in Canada, and elsewhere, is large scale and low grade. Individual projects often require over \$100 million to bring the mineral deposit into production. The credit

worthiness of the companies concerned, and hence their ability to finance these projects, has been greatly enhanced in recent years by the willingness of the Japanese consumers to enter into long-term large scale contracts for the output.

It is reasonable to assume that our Japanese trading partners will commit themselves to such long term obligations only if the material they require is in short supply or its continuing flow cannot otherwise be guaranteed.

Under conditions of world abundance we can expect an increasing reluctance on the part of the Japanese to continue this practice. Nevertheless, in addition to Canadian savings, our country will require a continuing inflow of capital for its development. Any Canadian action that might inhibit this flow must be very carefully considered.

In 1962, Cominco initiated discussions that led to a joint venture lead smelter in Japan. This investment in processing facilities assured the continuity of flow of Canadian produced raw materials which were competing with raw materials from other countries. Although a tariff barrier exists, this investment did not depend on tariff restrictions alone. Transportation costs and the assurance of market access were very important considerations.

Even with free trade and no pressures of economic nationalism, logistics alone can favour the processing of certain basic materials within the market area. This is obviously true of grains, but it is also true of many minerals. In these cases, Canadian investment in processing facilities within consuming countries is a desirable way of ensuring a continuity of flow of trade in the face of increasing competition from other countries, as well as a source of external income.

I have discussed only our Japanese experience—which to date has dominated our business relationships with the Pacific. Although they have been of lesser importance so far, I would like to mention Cominco's business relationships in India, Hawaii and Australia as quite different considerations were involved in each of these ventures.

In India Canadian technology and investment were used in conjunction with local partners to build and operate a zinc smelter. We believed that tariff and other political considerations would close this market to more highly processed Canadian exports. It was in part designed to enhance our market position and to be an initial stake in a country we believed to be of a good long-term potential.

In Hawaii Canadian capability and capital equipment combined with local partners to establish a steel industry. This made products available for local consumption that otherwise would have been supplied from continental U.S. or Japan.

Although neither India nor Hawaii are strictly within the Pacific Rim as defined by this committee, the factors leading to these decisions would be equally applicable in many Pacific Rim countries.

Our involvement in Australia, on the other hand, is part of our world-wide exploration program. Cominco will use Canadian technical and financial capability to generate additional income wherever we can see that the geological opportunities are commensurate with the political, tax and social risks involved.

The growing stability of resource rich countries in the Pacific Rim promises to provide the incentive to extend these exploration programs. Our company is constantly evaluating specific mineral opportunities in many parts of the Pacific.

In our estimation, Australia currently offers the best combination of mineral opportunities together with political stability. It is unfortunate that the bulk of the non-indigenous funds required by Australia will inevitably flow to Australia from the United States, because U.S. taxation laws give their mining companies the ability to write off these exploration expenditures against other corporate income. This is not true in the case of Canadian mining companies. Our tax legislation limits the ability of Canadian companies to compete in offshore exploration.

I am sorry, Mr. Chairman, for taking up so much of your time, but I hope that these remarks, together with our written submission, have been of some assistance in explaining Cominco's position in the Pacific.

The Chairman: Thank you very much, Mr. Hobbs. We found your presentation very informative, as indeed we found the other presentations.

At this point I will ask if it is agreed that the original briefs be printed as appendices to our proceedings of today.

Hon. Senators: Agreed.

The Chairman: We shall now proceed to the questions which will be led, as I indicated previously, by Senator Connolly.

Senator Connolly (Ottawa West): These submissions make up a real platterful. First of all, I want to compliment Mr. Joplin on the overall perspective that he gave us in his summary. If I may say so, I think that Canadian Pacific should be increasingly aware of the importance of the historical contribution that the company has made not only to the development of Canadian interests in the Pacific region. I am most impressed by what you say about the foresight of Sir William Van Horne, and your present Chairman of the Board, Mr. Crump, when speaking about the prospects should be listened to very widely in Canada. I am delighted to see the comment contained in the extract that has been given from his report to the shareholders.

I should like to say one other thing, which really does not arise from the briefs. The company deserves commendation for the kind of advertising it has on television. Canadian Pacific's advertisements give something to the television user, and perhaps they could give more because you have much more to give. Your corporate interests allow you to diversify the commercials you produce. I hope you will inject from time to time some of the historic work that the company has done in various areas, but the fact that you talk about ships, aircraft, trains, and perhaps about the resource industries in which you are interested as well as CP Investments, is all

part of educating Canadians in the importance of a diversified corporate organization like yours, which redounds so much to the benefit of Canada.

Senator Grosart: It was a good football game too.

Senator Connolly (Ottawa West): There is so much in your brief, Mr. Joplin, that it is difficult to pick out the important points. I hope that the company received compensation for the ships that were requisitioned during the war, some of which were lost. I assume that there was such compensation paid.

Senator Rattenbury: Many times over.

Senator Connolly (Ottawa West): I would not think that

The Chairman: There are two voices of authority there, Senator Connolly—yours and Senator Rattenbury's.

Senator Connolly (Ottawa West): Let us pass that one for the moment, because there are so many other things to talk about.

I notice that on page 3 of your brief there is the following statement:

—while traffic originating from the West Coast States was restricted by American law to U.S. bottoms.

Does that restriction still apply, and are there other national restrictions of a similar character?

Mr. Joplin: That statement was specifically put in here to show what actually happened to our attempt to come back on to the North Pacific. During that period Japan was under the control of American troops and the American people, and there was just no way by which a Canadian company was going to break into that trade. Although we did give it a good try, we simply had to quit. It was not the time in those particular affairs of men to try to make that go.

Senator Connolly (Ottawa West): What about the situation now?

Mr. Joplin: The situation now is quite different. The Japanese are now masters in their own house. We, in fact, actually do have ships on the Pacific under charter to Japanese trading houses and trading groups. C. Itoh does have one of our ships, and Marubeni-Iida has two of the others. The rest, of course, are in trade and short term charter.

Senator Connolly (Ottawa West): Would you say that ocean shipping conditions on the Pacific in so far as you are concerned are satisfactory at this time?

Mr. Joplin: Competitively, yes, they are. We are getting our fair share. Originally, for instance, we intended to try to ship coal from Canada in Canadian bottoms and land c.i.f. contracts in Japan. They rejected this as a proposition and took f.o.b. contracts in western Canada. Since that time I think there has been some change of

heart regarding this, and I think that now if we wanted to go back to it we might be able to land c.i.f. contracts.

Senator Connolly (Ottawa West): And this presumably might mean an increase in the amount of tonnage you would have available.

Mr. Joplin: Yes, it would mean we would participate more in the Pacific trade.

Senator Connolly (Ottawa West): Which possibly might mean more business for Canadian yards, if they are competitive?

Mr. Joplin: Yes.

Senator Connolly (Ottawa West): I notice from the text on page 4 that there is going to be a meeting of the Pacific Basin Economic Co-operation Council in Vancouver next year. I do not know how much of a part you will play in that, but I do know that when international meetings of this kind are held those responsible for the organization generally look for speakers from Ottawa. I suggest that whoever is managing that convention might consider the chairman of the Standing Senate Committee on Foreign Affairs as a possible speaker.

The Chairman: Thank you very much, Senator Connolly. A somewhat similar invitation was extended to me by Mr. Hobbs prior to the meeting. Quite apart from my own participation in this affair it seems to me that this would be an opportune time for this committee to be involved in a hearing on the west coast. I think we might pursue this thought.

Senator Connolly (Ottawa West): Are you suggesting that the committee might put on a floor show during the meeting?

The Chairman: I really had not thought about it to that extent. There are one or two star turns in our group.

Senator Connolly (Ottawa West): I have a question with respect to Japanese imports of various commodities, but I think that matter should be left until we deal with Cominco's brief.

On page 6 you talk about the importance of developing port facilities on the west coast, and particularly in Vancouver. Do you include Roberts Bank in Vancouver?

Mr. Joplin: Actually I include everything from the border up to where the mountains pinch our natural gateway off. This is an area that is served by both of Canada's major railroads.

Senator Connolly (Ottawa West): What about Roberts Bank? Is it operated in a way that is contributing to the handling of exports?

Mr. Joplin: At the moment there is only one terminal there. There are, of course, other bulk terminals in the west coast. One of them is actually handled by Cominco through their subsidiary, Pacific Coast Bulk Terminals.

Senator Connolly (Ottawa West): Is that in Vancouver?

Mr. Joplin: Yes, there are two other major terminals on the north shore.

There is a tendency for the people in the port to regard those facilities in what might be considered a parochial manner, rather than that they are Canadian and Canada's gateway to the Pacific. It behooves all Canadians on the Prairies and in eastern Canada as well as those located and living in Vancouver to become aware that this is Canada's gateway and to act accordingly. There are difficulties with respect to jurisdiction and land ownership.

Senator Connolly (Ottawa West): It is not municipal, but national.

Mr. Joplin: That is correct.

Senator Connolly (Ottawa West): Can you and other comparable shippers do anything to make that point? It is important not only to Canada but to the provinces.

Mr. Joplin: Well, as a matter of fact, Canadian Pacific together with Shell Canada in the corporation ShelPac actually has before the National Harbours Board at the moment an application for a lease for the development of a bulk terminal at Roberts Bank. This is held up at present pending treasury decisions on priorities of financing, et cetera.

Senator Connolly (Ottawa West): You had a bill in the Senate a year or so ago relating to rail connection to Roberts Bank. We saw some plans showing the projected development there. I take it they have not been completed yet?

Mr. Joplin: The rail link has been built. At that particular time, if you will recall, there was a considerable amount of brouhaha with respect to connecting it with rail link and people saying they did not want it. There is a point here where the good of all of Canada will have to over-ride a purely local feeling that perhaps they will be disturbed.

Senator Connolly (Ottawa West): You were involved, of course, not only with the Canadian National but other provincial railway systems there. You have made those links and the trains are now rolling.

Mr. Joplin: Yes.

Senator Connolly (Ottawa West): From the port and river area, the Crowsnest Pass?

Mr. Joplin: Yes, from Crowsnest Pass. The coal is actually moving from Sparwood.

Senator Connolly (Ottawa West): Its purpose was in connection with the Kaiser development. Has that panned out and are you carrying their coal?

Mr. Joplin: Yes, we are carrying their coal to Roberts Bank. We also carry the coal from Coleman Collieries and Canmore, which go through the Pacific Coast Bulk Terminals. In addition we are carrying coal made by Kaiser at Sparwood or, as they call it, Elkview, to Roberts Bank.

Senator Connolly (Ottawa West): Is that a long term contract?

Mr. Joplin: We have two contracts with Kaiser. One is for 15 years, for three million tons; the other three years, for two million tons.

Senator Connolly (Ottawa West): You mention in another part of your brief a proposal which would route this coal presumably from Kaiser's area through the United States to Roberts Bank. Would that conflict with the existing contracts?

Mr. Joplin: It would in part.

Senator Connolly (Ottawa West): Would it cut down on the volumes?

Mr. Joplin: Yes; one of our contracts with Kaiser is for two million tons for three years. In letters of intent which are filed with the C.T.C. this additional two million tons is actually pledged to flow on this railway if it is built.

Senator Connolly (Ottawa West): What do you mean by this railway? One from the United States? I see; it is not built yet?

Mr. Joplin: No.

Senator Connolly (Ottawa West): Will the additional facility be needed?

Mr. Joplin: In our opinion, no. As far as we can determine in looking as hard as we can at it in a very fair way we can see no reason for this being built at all.

Senator Connolly (Ottawa West): I think we will leave the rest of that to the Canadian Transport Commission; it may be *sub judice*, Mr. Chairman.

Do not answer this question if you do not wish: in the development of the west coast ports labour appears to us in central and eastern Canada to be a problem which looms very large in connection with the flow of goods because of strikes, legal or illegal, slowdowns and work stoppages of various kinds. Do you find this to be a major problem in trade in the Pacific area?

Mr. Joplin: It can be a very difficult problem; it can cut off trade to a very marked extent.

Senator Connolly (Ottawa West): Do you think the trade union officials and generally the managers of the movement could be persuaded to realize the important national interest that could be jeopardized or prejudiced in some way by this kind of union activity?

Mr. Joplin: I really cannot answer that. At times I find it difficult to understand exactly what is going on and why things are so difficult to settle. I believe even our Minister of Labour had some trouble.

Senator Connolly (Ottawa West): I would think so; he seems to have that problem, but I suppose it will always be with us and maybe there are two sides to it. However, it seems at times that the national interest is being seriously damaged.

My next question is with respect to the greater use and development of interest in the tremendous new freight carriers, the 300,000 tonners. You speak of your ships being on the Pacific and having ten of them with perhaps 800,000 gross ton capacity total. What about the huge new carriers? Do you expect to be in that business?

Mr. Joplin: We are in it.

Senator Connolly (Ottawa West): You are in it in the sense that you are feeding these ships from your trains.

Mr. Joplin: No, we are actually trading with these ships. We have recently launched a very large crude carrier, the *Port Hawkesbury*, of 250,000 ton dead weight, a tanker.

Senator Connolly (Ottawa West): Is this your ship?

Mr. Joplin: This is ours.

Senator Robichaud: Where was it buit?

Mr. Joplin: In Japan.

Senator Connolly (Ottawa West): What do you look for in the trend of the future with respect to these very great capacity ships?

Mr. Joplin: The economics available in the transportation field in the use of these very large bulk carriers are quite significant. With regard to the technology that is available to them I think there is an upper limit somewhere around 500,000 deadweight. After a while it gets to the point that it is almost an island of material.

Senator Connolly (Ottawa West): But your own view is that it may be the kind of ocean carrier of the future that you will not only own but build?

Mr. Joplin: Yes.

Senator Connolly (Ottawa West): This is a little off the idea of the importance of the Pacific area, but there is a good deal of talk too about the growing importance of containerized goods, and the use of Canada as a bridge for goods brought to our east coast, or into the St. Lawrence, into the Seaway area, by these super-sized bulk carriers, then taken by rail to the Pacific coast, and then again by super-sized bulk carrier to the Orient. Is this a fanciful concept or is it something real?

Mr. Joplin: First of all, the container ship is not a super-sized vessel. It is a very specific kind of vessel and is not of the 250,000-ton class; it is a much smaller vessel.

Senator Connolly (Ottawa West): Could the large one be used?

Mr. Joplin: In the mechanics of using one, you are not easily able to cope with that kind of thing. The idea of the container itself is very viable. The use of containers in inter-modal shipping is something that Canadian Pacific has established and is working on, in the same way that Canadian National Railways is on the Atlantic. I guess the decision will be made by a conference of Pacific shipping meeting in San Francisco today or tomorrow, but we have a proposition at the moment in Japan which will see asbestos moving in containers across Canada by rail and into Japan, and on the return

movement we will be moving back finished goods. This movement and the development of the inter-modal concept here will perhaps be significant in the handling of Japanese goods and in the handling of the sale of our asbestos.

The Chairman: This asbestos comes from the Eastern Townships?

Mr. Joplin: The asbestos comes from the Eastern Townships.

Senator Connolly (Ottawa West): Would the returned goods remain in America or go on to Europe?

Mr. Joplin: I think in this particular case they will come into Canadian markets.

Senator Connolly (Ottawa West): Is there any prospect of a land bridge the other way?

Mr. Joplin: The idea of a land bridge, always seems to be just outside our grasp; as soon as you get to the point where you might put it together as a package, the technology changes, rates change on the high seas. I do not at the moment see the land bridge concept developing.

Senator Connolly (Ottawa West): I have a number of other questions.

The Chairman: Perhaps, Senator Connolly, we could come back to you, in the interests of equal time. I have a note that Senators Robichaud, Grosart, Laird and Carter wish to ask questions.

Senator Connolly (Ottawa West): Do you want to stop on this brief?

The Chairman: I think probably it would be a good idea if we spread the questions around.

Senator Connolly (Ottawa West): You do not want me to go to the other briefs?

The Chairman: Perhaps when we come back to you. Would you be agreeable to that?

Senator Connolly (Ottawa West): Yes, that is fine. I have lots of other questions on this brief and a great many on each of the others.

Senator Robichaud: My question has been partly answered in reply to questions asked by Senator Connolly. It also has to do with shipping. Mr. Joplin, you quoted practically word for word from page 12, paragraph 39, where you say:

Canadian Pacific's bulk shipping subsidiary has purchased its entire fleet of ten ocean-going vessels, totalling some 860,000 tons dead weight, at a cost of US \$76 million, from Japanese yards. A number of those vessels currently in service are engaged in Pacific area trading.

That shows this entire fleet is not used for Pacific trade. I know that Canadian Pacific must have had good reason to place its entire order for its ocean-going vessels with Japanese yards, but if this sentence were taken out of

context it might be misleading. Could you therefore give us a few reasons why this order was placed entirely with Japanese yards; deal also with the competitive position of Canadian shipyards at the time, and what it may be today in view of the latest announcement by the Government to subsidize such vessels by 17 per cent?

Mr. Joplin: International shipping is, as you realize, a very competitive trade to be involved in, and survival in international shipping depends upon our ability to play the game according to the international rules, which is to minimize capital costs, investments and operating costs, taxation and all the other things involved. To be competitive we must play it by exactly the same hard rules that are followed in international competition. We find that Canadian yards are really lacking in experience in the construction of vessels of the size we are talking about.

It should be realized that Japan, through the efforts of Dr. Shinto, has made a tremendous step forward in developing large bulk carriers and the technology involved in building them. Canadian yards have simply not been competitive pricewise. To a large measure I think it is attributable to labour costs. As an example, the recent Burrard drydock settlement in Vancouver has resulted in the highest shipbuilding wage rates in the world. This is perhaps the reason why our shipyards are not busy, despite the fact that we are in a period when it is darned difficult to get a place on the berths of the shipyards of the world; in some cases they are booked up to 1974 and 1975.

To answer the last point, I think the non-competitiveness (if that is the right kind of adjective) has been acknowledged by the Minister of Industry, Trade and Commerce, when last week he made his announcement and introduced legislation which would see some form of subsidization for export orders. I think perhaps Canadian Pacific Bermuda could take advantage of this. He announced a subsidy of 14 per cent for vessels over 40,000 tons dead weight tonnage, and 17 per cent for vessels under 40,000 tons dead weight tonnage. Perhaps with this announcement there is hope that Canadians may be able to get into this areas where there is an expanding and demanding market.

Senator Robichaud: I might add that about five years ago, when I visited one of the large shipyards in Japan I asked a welder what his wages were, and he told me he was making the equivalent of about \$6.50 a day. I think that today the welders in B.C. shipyards are getting more than that per hour, which justifies your reply.

Senator Grosart: I am interested in the CP Air comment on the necessity for a new order of priorities in respect of bilateral agreements on air lines. In your view, who should set those priorities?

Mr. Gray: There should be a joint setting of priorities. The way I envision it is that Canada looks over the opportunities open to it for bilateral agreements.

Senator Grosart: Who is Canada?

Mr. Gray: The federal government through the Canadian Transport Commission. They look over the situation and decide that there are opportunities in Indonesia, Phillipines, Malaysia or Singapore and then evaluate what is best for Canada. The carrier assigned to that geographical area becomes involved in order to see what can be arranged to make it a viable operation.

Senator Grosart: Are you saying, sir, that at the present time the Canadian Government is not negotiating bilateral agreements with every country in the world where CPA can fly?

Mr. Gray: I would like to defer this question to Mr. Cameron, because it is his field of endeayour.

Mr. H. D. Cameron, Vice-President of International Affairs, Canadian Pacific Air: I think there are almost two priorities which should be followed and one is the priority of required negotiation by different countries when they come up for renegotiation of their agreements and in negotiation with countries where the air lines have recommended very strongly that early agreements be made and that has been keeping the Canadian Government very, very busy.

I think that in addition to that there is the priority that whenever another country that we have any significant relationship with at all—economic, political or cultural—indicates a desire to originate the question and bring it up with Canada that we should be very quick to answer and arrange a bilateral with these countries, even though we might not be ready to put that bilaterial into effect immediately. It should be arranged and kept in storage, so to speak.

Senator Grosart: I am afraid I do not understand. We have trade commissioners all over the world and we are told repeatedly by both External Affairs and Industry, Trade and Commerce that these trade commissioners are looking everywhere for business. I do not understand how it can be that throughout the world where we can negotiate agreements we are not negotiating them. What is holding us up?

Mr. Cameron: They are very complicated. Sometimes there are a series of negotiations. The present renegotiation with the United States started about a year ago and there have been meetings between the two negotiating teams every few months over that period. There is always a very great amount of preparatory work for these meetings. I am the CP Airline advisor to the Canadian negotiating team and that is only one of about 10 or 15 negotiations that are, to varying degrees, on the program. It adds up to a very heavy workload, but in spite of this I think that we should be taking on more work and we should be doing more of these such as in those two priorities which I mentioned, the one where we curselves are very anxious to do it now and the other where we can take advantage of the interests of the other country and arrange agreements.

Senator Grosart: I still do not understand how we can be lagging behind. Are we going to miss the boat in these places?

Mr. Cameron: I think the price increases with years. Right now if other countries are interested in reaching agreements and offering rights I think that even though this might be a development period for those rights, Canada should reach agreement to exchange rights at this stage, because with the growth of the international airline industry those rights become more sought after and more difficult. In my opinion, if the present system of rights which Canada has—five air bilateral agreements throughout the world—had to be obtained initially right now many of them could not be obtained with the terms reached in those agreements. We have benefited by getting started early.

Perhaps a short answer to your question is that probably because of the heavy workload I feel that we are not completing as many agreements as quickly as we should. If I can make a recommendation, Mr. Chairman, I would say that the answer is to increase the priority of that particular endeavour of the Government.

Senator Grosart: You are definitely suggesting, as I understand it, that the federal Government is not accelerating its activities in this area as it should be?

Mr. Cameron: I think that it would be to the country's good to accelerate its efforts.

Senator Grosart: There has been a suggestion made that we should have a Pacific Economic Advisory Committee and we should also have a Canadian Institute of Pacific Relations and task forces. Is this the way to tackle the problem? Who would the advisory committee advise?

Mr. Gray: Is this question directed to me?

Senator Grosart: These suggestions seem to come in the three briefs.

Mr. Gray: I am not as well versed probably as Mr. Hobbs.

Mr. Hobbs: I am not familiar with the suggestion.

Senator Grosart: There are these suggestions in at least two places in the briefs, and I am wondering what is the purpose. Someone must know why it seemed important to recommend the Canadian Institute of Pacific Relations and the Pacific Economic Advisory Committee

Mr. Gray: On page 11 of our brief we mention the same economic advisory council and on page 20 there is reference made to the Canadian Institute of Pacific Studies.

Senator Grosart: What is the purpose of this? What function would they perform that is not now being performed in Canadian Pacific Rim relations?

Mr. Gray: There are certain fragmented efforts going on at the various locations. For example, CP Air receives calls quite frequently from consultants who have been in the Pacific and return to say that there is an opportunity in Hong Kong or Malaysia or somewhere else and I am sure it also happens to Cominco. We also hear from the Department of External Affairs and the Department of Industry, Trade and Commerce that there are opportuni-

ties, but sometimes they are talking about the same opportunity in a different framework. There does not seem to be any place where people who are involved in the Pacific can sit down, such as we are doing here today, and discuss the problems. It seems to me we charge off in different directions and probably do not apply our energy as directly as we should. This was recommended in the Government's document on Pacific foreign policy that was mentioned.

Senator Grosart: You speak of "fragmentation" in your brief and just now you mentioned the word. Where is this fragmentation of effort? Is it between departments or between government and industry and what is the nature of the fragmentation?

Mr. Gray: We had a telephone call about a month ago from a consulting engineering firm working in the Pacific and taking some time developing ideas, and they were talking about a problem in Malaysia involving airport development. I happened to know that there were two other consultants doing the same thing. This is good competition between Canadian consultants, but whether or not the Trade and Commerce people knew that these people were out on this Pacific safari we do not know; and it is difficult for us to assist and advise them unless we know we are working within some kind of program or some kind of plan.

Senator Grosart: I am asking this question because we have had evidence before the committee that Canada—Canadian industry, Canadian communications, Canadian transportation, Canadian businessmen and Canadian Government—are away behind in our approach to the Pacific market. Is this fragmentation of effort part of this?

Mr. Gray: I think it is indicative of the situation, in my own opinion. I think Mr. Hobbs made the point that the Japanese certainly have got it organized so that they are head and shoulders ahead of us in negotiation, in some of these areas.

Senator Grosart: Is the answer, do you think, that we should take a leaf out of the Japanese, Swedish and Swiss books, and develop a much closer degree of cooperation, active, business seeking co-operation between government and industry in Canada?

Mr. Gray: I think there certainly should be an opportunity for this to evolve. In our form of economic society, you should not copy anything, but you should take the best ideas from each of them and mould it into what is best for Canada.

Senator Grosart: A suggestion was made here today that this might be achieved through the development of some kind of Canadian trading trust or corporation. Forgetting the legal difficulties that may be in the way, do you see this as a state trading operation?

Mr. Hobbs: No, senator, I see this as a number, I hope, of Canadian based trading companies who would operate in the Pacific and perhaps around the world with the purpose of providing a means of access to markets for

smaller Canadian firms that are not able to mount the kind of effort needed to sell their products over those vast territories in the Pacific, and to provide a means of consultation, information, commercial intelligence, to supplement the foreign trade service, which would become available to Canadian companies seeking to expand their trade throughout the Pacific. I for one feel strongly that to do this through companies of other nations simply will not pursue Canada's primary interests in the Pacific with sufficient diligence to get the maximum out of a very important trading region.

Senator Grosart: Are there various units in the C.P. picture already doing this—C.P. itself, C.P.I., Cominco, C.P. Air?

Mr. Hobbs: I think C.P. is sufficiently big enough to manage those activities on its own behalf without too much difficulty. Although I do reiterate what I said earlier, that in many cases it is very difficult to distinguish the point of view of a Japanese trading company from the point of view of the Government of Japan. There is a co-ordination there that is a very powerful instrument. I was thinking more of the smaller companies. Here again, I am not talking about little companies, I am thinking of reasonably sized companies—where they simply cannot muster the people and the skills necessary to operate over such a diverse region with complexities of language and business custom which are so very different from ours.

Senator Grosart: How would your own operation differ, say, from one of these Japanese trading companies? I say that because it would seem that C.P. would have very much the same components—you have the raw materials, the fertilizers, the metals, you have the carriers, the rails, and so on.

Mr. Hobbs: I think it would be closer to deal with what is in the function of the trading company of Japan and of which there is no counterpart in Canada. I am not suggesting that Cominco is hard done by. I am simply saying that I think that Canada's best interests would be greatly served if there were a mechanism to facilitate and educate Canadian companies in the necessary skills for dealing with the Pacific because the situation is quite different from the Atlantic Region.

The Chairman: There is a remarkable analogy, Senator Grosart, to our Caribbean situation.

Senator Grosart: Would you see a viability in the C.P. complex taking in non-C.P. components into your own trading trust, if you like—which is a word we had the other day.

Mr. Hobbs: It has never been the pattern in the past and really I have not considered it seriously. I suppose we have the capacity, but I am not at all sure that we have the organization. I am not saying that we could not create it, but I do not think it is in our immediate intention, to my knowledge.

Senator Grosart: In relation to the Pacific, where would you see a similar set of components? 23150—2

Mr. Hobbs: I am afraid I do not quite understand.

Senator Grosart: In C.P. you have the components. I am trying to see who else could be taken as an example.

Mr. Hobbs: Can I suggest some of the worldwide names? There is the East Asiatic Company, out of Denmark. It is a shipping, resource, and trading company. All the Japanese trading companies either are affiliated with the means of transportation, by one mechanism or another, or have their own transportation facilities or they have a stable of producing companies that they represent, giving them an extraordinary variety of wear that they can sell all around the world. This is the means by which they can afford to have Japanese trading offices in practically every city on earth. They do an extremely successful job. I feel that Canada needs this kind of facility if we are going to keep pace.

Senator Connolly (Ottawa West): Privately owned?

Mr. Hobbs: Oh, yes, sir, I think that privately owned is the obvious route for us.

Senator Grosart: Are we not now coming to a suggestion of restructuring the whole Canadian economy along the lines of some of these other countries? Is that what we are suggesting?

Mr. Hobbs: I feel that in any economic situation you are dealing with dynamic factors that require change. Certainly the Pacific requires closer collaboration between industry and government, and the development of institutions to ensure that our best interests in aggregate are further to our maximum effort. This is a very sophisticated group of competitors that we are dealing with and it is quite unlike those in other areas in the world.

The Chairman: You made the point too, Mr. Hobbs, that there is a great difference between export and import.

Mr. Hobbs: Indeed.

The Chairman: And you are addressing your remarks primarily to the export side.

Mr. Hobbs: Primarily to export, yes.

Senator Connolly (Ottawa West): And what you are doing is advocating the creation of competitors to yourself?

Mr. Hobbs: That is right.

Senator Connolly (Ottawa West): Who should take the lead?

Mr. Joplin: We are going at our best licks. We have been doing this for a long time. We maintain in Japan at the moment an office in which you can get translation services, where we have our own people who translate for us. Just imagine yourself as a small Canadian businessman making a deal in which you are relying upon a Japanese trading company to be your intermediary. He is acting for you, but the language in which the trading is

done is Japanese and you must sit there quietly, explain your case to this man, who then explains your case to perhaps somebody with whom he is working in a continual way. That smaller Canadian trader is at a great disadvantage.

Senator Grosart: The Japanese learned English before they came over.

Senator Laird: Is your C.P. consulting company used in this connection, say particularly by the other development companies?

Mr. Joplin: No, we have not made that service available. Generally ours is a consulting service in that it gives technical opinions and technical advice regarding purchases of equipment and regarding rail and transportation, matters we think we know something about.

Senator Grosart: Is CP going into the hotel business abroad?

Mr. Joplin: I would rather not try prognosticating what will happen in the hotel business, which is a very viable or very "bubbly" business.

The Chairman: Not even in Montreal?

Mr. Joplin: We have a wonderful hotel in Montreal.

Senator Grosart: There are several references in the Cominco brief to equity involvement which you have in partnership with Japanese companies. Do you have more than 50 per cent equity?

Mr. Hobbs: No.

Senator Grosart: It is 40 to 45.

Mr. Hobbs: I am not entirely sure, but as I recall it I believe it is controlled by law in that particular case. But I have to qualify that because I did not check it before coming here.

Senator Grosart: There is reference in the evidence to the importance of controlling—I think that was the word used—access to the markets for the raw materials where you have an equity in the processing plant in Japan. Is this arrived at by agreement?

Mr. Hobbs: The plant is required to use our raw materials.

Senator Grosart: How do you require it to do that, if you have only 40 or 45 per cent interest?

Mr. Hobbs: It was in the basic term under which the smelter was put in.

The Chairman: It is a condition precedent. It is the deal.

Mr. Hobbs: It is the deal, yes. That is right.

Senator Grosart: I do not see how you can make it stand up.

Mr. Hobbs: So far, Senator, it has been very successful.

Senator Laird: Mr. Joplin, I come from Windsor; perhaps, then, you will understand why I am asking you this question. A senator here, whose name will not be mentioned, was of the opinion that very shortly in the province of British Columbia and in the Prairie Provinces half the cars, or more, would be Japanese cars. Does your company bring over, in any of its bottoms, any extensive number of Japanese cars?

Mr. Joplin: I do not think we have carried any over so far. We would not be averse to doing so, if the business were offered to us.

As a matter of fact, the Japanese have developed a special ship which actually carries the cars in much the same manner as cars are transported in racks by rail here or by the trucks which you see driving them; along the highways. The Japanese have the same kind of device for transporting cars overseas in their vessels. The device then collapses down so that they can transport other commodities back to Japan.

Senator Laird: Are they doing that extensively?

Mr. Joplin: Oh, yes, there is a big movement of cars out of Japan.

Senator Laird: On the subject of trade, Mr. Joplin, I believe there was some suggestion in your brief that we should have closer commercial ties with China now that we recognize China. Perhaps I should alert you to the fact that certain witnesses before us up to this point have been far from optimistic about any increased trading activity with China owing to our recognition of China. Have you any definite ideas on the subject other than those appearing in your brief?

Mr. Joplin: I have some ideas. I do not think that by the simple fact of recognizing the People's Republic of China we are going to be suddenly faced with a big chunk of trade which will suddenly be landed upon our front doorstep. The Chinese have shown that they do not allow, for lack of a better word, the political side of their affairs to interfere with their trading. They have traded where they could get the best bargains.

But I will say that the establishment of diplomatic relations will certainly not hinder trade. If we can make it easier for Canadians to fly to China, to be abroad in the country, to discuss with their government officials, et cetera, what is involved, then from this will flow trade. And certainly it is a wonderful market for wheat so far as we are concerned. We have sold wheat in the past to China. I think we will try again and again to do so. In order to sell wheat we will really have to think about buying at least in part some of the goods which they make.

Senator Connolly (Ottawa West): We sell it through a straight trading agency.

Senator Laird: Mr. Gray, on the subject of flying, I am still slightly confused about the exact situation with respect to bilateral agreements. You mentioned certain restrictions that were imposed. For example, Australia pemits only 140 passengers on one plane per week. Is that

bilateral arrangement entirely reciprocal? For example, can QANTAS do the same thing? Do they have the same restrictions?

Mr. Gray: I think they have the same restrictions, yes. Mr. Cameron is the expert in that field.

Mr. Cameron: These arrangements are usually reciprocal. In this particular case I believe it is because the Australian government desires to protect QANTAS that it has put on the restrictions. So in turn Canada puts on similar restrictions. Canada would be very happy to raise the restrictions if Australia would raise its restrictions.

In respect of the Australian government and its airline, QANTAS can fly to San Francisco from Australia. In fact, they are doing it 14 times a week now, I believe. Therefore they do not need to fly into Canada more than once or so a week to tap quite a bit of Canada-Australia trade. So they find it is to their benefit to leave that on a restrictive basis.

Moreover, they are able to do that because it is an agreement of the old British type that allows those sorts of restrictions. Many of the newer agreements do not have those restrictions in them. You can operate as much as you need to serve the market which offers itself.

Senator Laird: One other thing puzzles me arising out of your discussions with Senator Grosart: you spoke of some of the agreements being kept in cold storage. Are there actually any agreements which are not being operated?

Mr. Cameron: Yes. There are a couple that come to mind right away. They were agreements made with Turkey and Pakistan some years ago. I believe they were done perhaps because those countries were members of NATO. They were done way in advance of the airline ability to exercise them. Those agreements can always be used by the other country into Canada, but I myself have no criticism of that and I have no fear of that, because if a Canadian carrier is not yet able or does not yet wish to use its rights, then, if the foreign country uses its rights, the foreign country is really building up the route and building up the traffic, which will have the effect of accelerating the time when it will become economically viable for the Canadian airline to operate.

As a matter of fact, the shoe has usually been on the other foot. We have been operating quite a few agreements with the other country just starting to make use of its reciprocal rights.

Senator Laird: Have we any such agreements in cold storage with any of the Pacific Rim countries, which, after all, are the subject of this particular study?

Mr. Cameron: There are no inactive agreements there.

Senator Laird: Thank you.

Senator Carter: Mr. Joplin, you mentioned in your brief about the unit coal train system. Is that in operation now?

Mr. Joplin: Yes, sir. That is operational. It works very well. As a matter of fact, it is suffering a little bit from 23150—2½

lack of coal to carry. Kaiser are having some trouble, as has been announced. We are carrying every pound of coal we can in this unit train and it works fine.

Senator Carter: It is more economical?

Mr. Joplin: This is perhaps a unique development. It is probably the longest unit train operation in the world and it operates under what are difficult conditions, but it operates all the time.

Senator Carter: You spoke also of the proposed pipeline for solids like coal. I suppose you mean grain as well. Do you have grain in mind?

Mr. Joplin: Well, the type of solid pipeline we are most interested in and which we can see a possibility of developing in the very near future—slurry pipelines are here right now. But our slurry and grain could not move in that type of pipeline.

Senator Connolly (Ottawa West): It would germinate?

Mr. Joplin: Well, the carrier would react.

Senator Robichaud: Then what about improving the carrying of grain by rail? Are you doing anything to improve that?

Mr. Joplin: I think there have been quite significant changes in the systems that have been developed for the carrying of grain. I think the block system which is now in development and is in fact working is moving the grain to the elevators. It is so arranged that we are able to load ships, and they are not waiting around in harbours. Before that the elevators were often all plugged up with the wrong kind of grain.

Senator Robichaud: New cars?

Mr. Joplin: I think the car question is a very interesting one. A car standing still is a car that you might as well not even have loaded. It just really does not belong there.

Senator Carter: Do you see the pipeline replacing the rails?

Mr. Joplin: No. The solid pipeline is really complementary to rail. In areas where there are no rails, and this is a very specific application, solid pipelines can go in and can be very effective as an initial method of carrying material. In areas where there is rail and perhaps costs are escalating, then the solids slurry pipeline would pick up a base load and make sure that our goods would get to tidewater at the cheapest possible rate.

Senator Carter: Well, are you saying that pipelines will be restricted to one particular product like coal?

Mr. Joplin: Yes, at the present time the technology is limited to slurry.

Senator Pearson: You would not use sulphur either?

Mr. Joplin: I think sulphur could go by pipeline. As a matter of fact, in our company ShelPac we do have technology for moving sulphur in a hydro carbon.

Senator Carter: Now I would like to refer to pages 7 and 8 of the C.P. Air brief. On page 7 you have figures for non-immigrant visitors, I presume these are tourists.

Senator Cameron: That is right. Businessmen and tourists mixed.

Senator Carter: There was a terrific drop in 1968 and you did not make a comeback in 1969. What happened in 1968 that you came down so low?

Senator Connolly (Ottawa West): Expo made a difference, I suppose.

Mr. Gray: Expo was in 1967.

Senator Carter: But in 1966 you had 95,500 and in 1967 you had 500 less. And then in 1968 you were down again. But in 1969 you are back up again but not nearly at what you were in 1966.

Mr. Gray: Japan Air Lines are now flying into Canada. They have two flights a week into Vancouver and so they are sharing the market. They started sharing that market in 1968.

Senator Carter: So this is the effect of competition from Japan Air Lines.

Mr. Gray: Yes. Before that we had the north Pacific route exclusively to ourselves, and the Japanese did not exercise their rights to come into Vancouver, but when they did exercise their rights, they look part of the market away from us.

Senator Carter: But then how have you regained it in 1969 when you made a pretty good comeback?

Mr. Gray: Well, in 1969 you had the beginning of Osaka '70, and you had many people going over and a lot of trading going on at that time. Also we must not forget that all these people here do not come by air; they might come by sea. They are just non-immigrant visitors entering Canada. They might come by Pan American into San Francisco or North West Orient Airlines into Seattle. I am just giving you here a picture of the flow of people into Canada from all sources. It does not necessarily have anything to do with C.P. Air or C.P. Rail at all. It is just a picture of the market.

Senator Carter: Looking then at page 8 you will see that the figures from the orient in 1969 were down a little in dollars compared with those of 1968. Then when you come to 1970 you are down quite a bit in both the number of pounds weight of cargo—air cargo—and the dollar value. What is causing that?

Mr. Gray: Well, two things happened there. Japan Air Lines take part of the cargo traffic, and secondly there was a downward change in IATA rates so we did not get as much money as we formerly did for the same amount of effort.

Senator Carter: And that would affect your revenue. And the competition from Japan Air Lines cuts into your total volume.

Mr. Gray: Yes. At the same time you have to take into account the fact that on the Pacific, the United States has approved the licencing of an all-cargo carrier known as Flying Tiger Line Incorporated. They take away some of our business by flying cargo into San Fransisco and Los Angeles. They may offer better rates. They offer a consolidation service because it uses all-cargo aircraft-containerization in effect. We do not have that ability in our passenger planes.

Mr. Cameron: Also, senator, in 1968 and 1969 we had a very special permission from the United Kingdom Government for the use of all-cargo aircraft out of Hong Kong. We were able to sub-contract and lease some special all-cargo flights and this allowed us to carry additional cargo and we were able to get that business. That temporary permission was revoked at the end of 1969 because it was a very special privilege and not a term of the actual air agreement.

Senator Carter: I would like to come to Cominco now and ask Mr. Hobbs some questions. Have the new terms of the Export Development Corporation been of much benefit to Cominco?

Mr. Hobbs: We have not used it to any extent, senator, to this point, but it is under active study. I am not sufficiently well informed to give you a good view of what it means. Certainly the extension of the function of the old Export Credits is an important step in the right direction, but so far as the dimensions are concerned, I am sorry I am not sufficiently familiar with them.

Senator Carter: You mentioned something earlier which I did not quite follow when you spoke about something building up to the equivalent of a 40 per cent tariff and that that precluded the finishing of materials elsewhere. What does that mean? Elsewhere than in Canada?

Mr. Hobbs: Elsewhere than in the recipient country. When you have a duty-free entry of concentrates, that may sell at a couple of hundred dollars a ton, and then you have a 5 per cent ad valorem duty on finished metal. The burden of that tariff charge falls on the processing step between the cost of the concentrate and the finishing of the metal and may amount to 40 per cent of the actual smelting charge. This effectively precludes the entry of metal from foreign sources while encouraging the flow of concentrates and providing, if you like, protection for a smelting or refining operation in the recipient country. This is damaging, of course, to our metals trade.

Senator Carter: That precludes finishing metals here in Canada, does it?

Mr. Hobbs: It certainly reduces the opportunities.

Senator Carter: You said something which I thought contradicted that and that is why I want to clear it up, because I thought you said that in Japan now the cost of labour is going up and they have such a labour shortage that they would not want to expend their labour on low value work.

Mr. Hobbs: That is true. I think the Japanese situation is changing, as much by problems of sulphur dioxide in the air as the labour. In the Tokyo-Osaka region of Japan the air is pretty thick. This is tending to produce an interest by the Japanese buying consortia in more finished metals than heretofor has been the case, but the situation is in the process of emerging and it is not yet clear what the pattern will be.

Senator Carter: So that is a compensating factor which could help more processing in Canada?

Mr. Hobbs: Yes, it will tend to help.

Senator Connolly (Ottawa West): We will have the pollution here

Mr. Hobbs: I think that is the idea, to export the pollution.

Senator Carter: Mitsubishi Smelting, that is a Japanese company? It is a joint company, but is it a Japanese company?

Mr. Hobbs: Mitsubishi Cominco Lead Smelter is a joint Japanese-Canadian company.

Senator Carter: Is it incorporated under Canadian law?

Mr. Hobbs: No, under Japanese law.

Senator Carter: That restricts your outside investment to 50 per cent.

Mr. Hobbs: I think in that case it must be under 50 per cent. Again, I might be corrected on that, but, as I recall it, it is under 50 per cent.

Senator Carter: It is 50 per cent for that type of company?

Mr. Hobbs: That is correct. These are changing now, there is a liberalization process going on. These activities have priority numbers on the liberalization list and, senator, I am just not sufficiently familiar with the liberalization list to recall where smelters fall.

Senator Carter: We had one witness, I think, before us some time ago who made the remark—and I am speaking from memory and am paraphrasing what he said, but I gather from what he said that he would not want to be managing a Japanese company in Japan, but would rather have that done by Japanese.

Mr. Hobbs: That would seem the course of wisdom to me also.

Senator Carter: You would agree with that?

Mr. Hobbs: Yes, I would agree with that.

Senator Pearson: I was wondering about port facilities for these large vessels which are being built now. Are there any ports on the west coast or on the east coast that can handle them?

Mr. Joplin: Roberts Bank, of course, has a sufficient depth of water.

Senator Pearson: Yes, but that is only one.

Mr. Joplin: Depending on the draft you are talking about—

Senator Pearson: I am talking about 200,000 or 500,000 tons.

Mr. Joplin: Up to 150,000 tons, which is the sort of vessel popular right at the moment, there is no problem getting through the First Narrows to Vancouver. Above that you are getting into an area where you may have some trouble, and you can only come in on a high tide.

Senator Connolly (Ottawa West): But not at Roberts Bank?

Mr. Joplin: Not at Roberts Bank, Roberts Bank has a sufficient depth of water and is dredgeable to a sufficient depth.

Senator Pearson: I understand that in Australia they are making great metal finds these days. Does CP have transportation directly from Japan to there, or do they have to come to Canada first and around that way, if they get into the mining business in Australia?

Mr. Hobbs: In all probability the shipments would go directly from Australia to Japan.

Senator Pearson: Would CP be in that?

Mr. Hobbs: I think that CP would certainly have the opportunity to participate if they so wished.

Senator Pearson: There is nothing to stop you getting into that?

Mr. Hobbs: There has not been to date.

Senator Grosart: Of the \$1.7 billion of exports cleared through Vancouver, what percentage would be in Canadian bottoms?

Mr. Joplin: I am afraid I could not answer that for you.

Senator Grosari: Could you make a rough guess?

Mr. Joplin: I could not even begin to answer that. The Canadian bottoms are not a significant factor in this particular tonnage, except that you have quoted the entire tonnage through the port of Vancouver and a great deal of it is barge traffic going up and down the coast. In international trade Canadian bottoms are not significant.

Senator Grosart: Not even CP bottoms?

Mr. Joplin: Not even ours.

Senator Pearson: With reference to Senator Grosart's question about the trading company, would it be possible that the formation of a trading company would take in most of our products in the way of grain and forest products as well as mining? Do you envisage a company of that size?

Mr. Hobbs: Senator, I was really thinking of a multipurpose sales and distribution organization that could take on the job of selling the products of companies that are not of sufficient size to do this effectively by themForeign Affairs

selves. Our major forest companies are perfectly capable of selling their pulp and paper with only a very modest amount of assistance, but there is a vast array of Canadian activities which really has no way of reaching markets without some form intermediary, and this is a foreign intermediary today, if at all.

Senator Grosart: When you say that, are you thinking of resource products or semi-processed products?

Mr. Hobbs: Small mines and this sort of thing, but I was really thinking of more highly processed products.

Senator Connolly (Ottawa West): Would it be the kind of thing that perhaps the Canadian Manufacturers Association and the Canadian Chamber of Commerce might take in hand as a project? I am trying to get at the gut issue—namely, how to do it.

The Chairman: I might help you a little on that. One of the previous witnesses clearly indicated that the prime support for the PBECC came from those two organizations.

Mr. Hobbs: That is correct, but it is a consultative body.

Senator Connolly (Ottawa West): We have not really an answer. I am not being critical, but we have not an answer.

The Chairman: We have a very stimulating question before us.

Mr. Hobbs: If I may be completely frank, Mr. Chairman, the impetus to the PBECC came straight out of Tokyo.

The Chairman: We are very pleased to have that on the record!

Senator Connolly (Ottawa West): Could we come back to that one point? Is there some handle we, as a committee, could grasp to achieve the results suggested by Mr. Hobbs?

Senator Grosart: We could form a company!

Senator Connolly (Ottawa West): I am afraid we will be criticized in the press, because it is said that we are already involved in too many directorships.

Senator Pearson: We will form a holding company.

Senator Connolly (Ottawa West): Are we going to leave that in the air, Mr. Chairman?

The Chairman: I think we will probably have to. I would like to bat it around a little more, but perhaps at a later time we could come back to it.

Senator Connolly (Ottawa West): I would like to ask two questions, one of CP Air. That is to know whether Mr. Gray could tell us something about the success you have had in selling travel to Mexico from Canada and whether that history, which I understand is very good, could have convinced people in the Commonwealth areas of the far off Pacific to use the facilities that you have.

Mr. Gray: That is a pretty broad question. That includes all the marketing forces, about which I knowledge only indirectly.

Senator Connolly (Ottawa West): I am talking only of the tourist traffic.

Mr. Gray: You are talking really about New Zealand. Perhaps we should be specific.

Senator Connolly (Ottawa West): Let us take New Zealand I do not like to, but go ahead.

The Chairman: Senator Connolly had a heart attack in New Zealand, so he is sort of prejudiced.

Senator Connolly (Ottawa West): There is more to it than that, Mr. Chairman.

Mr. Gray: Basically the marketing people are devoting, as I indicated in the table here, substantial sums of money every year to the advertising and promotion of tourist traffic from Canada, and from the United States if we can possibly induce passengers to come across the border and fly with us, to these destinations in the Pacific. That is having quite reasonable success. In Honolulu we have no problems, and we have begun to serve Fiji this year with two flights a week. This is part of a developing program to extend our tourist traffic into Fiji.

This is all being helped by the increase in flying by the American carriers. American Airlines was given a licence to fly from Los Angeles to Honolulu, to Fiji, to New Zealand and to Australia. When they advertise they increase the number of people who are aware of Pacific travel, and the whole thing is moving along very nicely.

The first thing that American airlines undertook in Fiji was a hotel project. We are working internally with our own people trying to get the same sort of thing going, because there is a lack of hotel space. We need more rooms. In the whole of the Pacific the marketing effort takes time, but it is producing results. Whether or not we could have achieved the same success in New Zealand when we were having that argument with them about our advertising and marketing programs will remain an unanswered question.

Senator Connolly (Ottawa West): Do BOAC or QANTAS put up any road blocks?

Mr. Gray: They are good competition, if that is a road block.

Senator Connolly (Ottawa West): Is there not more to it than that?

Mr. Gray: They have a consortium or an operating agreement amongst themselves as to how they are going to handle their joint promotions, and so on.

Mr. Cameron: Senator Connolly, I cannot restrain myself. You will be interested to know that we have taken a leaf out of QUANTAS' book. We set up our second flight per week as far as Fiji, and in spite of our best efforts with the New Zealand Government we could not convince them that we had a really helpful part to play in the development of their tourist industry as we

have in a lot of other areas. But, you will be interested to know that on our two flights to Fiji we are carrying more New Zealanders than we did when we served New Zealand directly.

Senator Connolly (Ottawa West): Perhaps they will see the light, because I think they have nothing to lose and everything to gain on the basis of your Mexican experience.

Mr. Hobbs, you did say something about foreign investment from Japan, and you expressed concern about the long term resource contracts which involve a considerable amount of foreign, and particularly Japanese, capital coming here to promote them. Are you concerned that this might impede development?

Mr. Hobbs: Do you mean the lack of availability of these long term contracts, sir?

Senator Connolly (Ottawa West): No, I am thinking rather about governmental policy in Canada that might inhibit the expansion of capital investment from Japan through these long term contracts or otherwise.

Mr. Hobbs: If I may dwell on this just a bit I should like to say that I think the long term contract was a device that was used very successfully by Japan in order to create around the world a substantial capacity in the raw materials they require. Once they have got these into balance or into a long term situation, then I am sure they will not continue the device of the long term contract.

Again, we come back to access to markets. These capital inflows into Canada assist in our development, because the nationals making those investments are going to be very sure that they help to make those investments successful. This is the other side of an investment in a producing facility in a recipient country. This does ensure Canadian materials, most of which are living in an extremely competitive world, access to these markets. So, I would be very disturbed if there were any restrictions on capital inflows to Canada on any basis.

The Chairman: In relation to your first point, Mr. Hobbs, perhaps you might explain to Senator Connolly your illustration of what happened to Malaysian iron.

Mr. Hobbs: This is very interesting. I am a steel man primarily, and I watched the development of the iron ore trade in the Pacific with some interest over a number of years, and what I described is exactly what happened to iron ore. Malaysia was a very important supplier of iron to Japan in the early postwar period. When the Australian finds were developed and Australian iron ore began to flow to Japan on long term contracts all the margianal suppliers were wrung out pretty hard. This, of course, brought down the average cost of iron landed to Japan, and this is exactly the kind of thing I foresee happening to other major commodities as Japan develops new suppliers to compete for the business available as there is no other major market than Japan, aside from the United States, I think it is important that these trade relationships be nailed down in as permanent a fashion as possible.

Senator Connolly (Ottawa West): Mr. Chairman, there is one other thing I want to say. It is not a question. We have talked about the Pacific rim, but from all the talk that has gone on here it seems to me that it is a basket—the Pacific basket. We have not talked about the Pacific on the west coast of South America because it is not within our terms of reference, but this whole area is a basket.

Senator Grosart: Mr. Chairman, I think we are getting a bit concerned at seeing our terms of reference narrowed down to Australia and Japan. I wonder if any of the witnesses would care to indicate what possibilities there are for Canadian trade relationships with the other countries of the rim, as we see it—that is, Southeast Asia and Oceania. In the foreseeable future is our Pacific trade going to be pretty well between Australia and Japan only?

Mr. Joplin: They are certainly the heaviest weights on the scale, but we have interests in possible development in Indonesia. It certainly is a large market. It certainly is a large group of people in a developing area. We have interests in Malaysia, and again there is a large number of people there. I think that within the expertise of CP Air, for instance, there is a tremendous amount of knowledge in respect of the development of a short take-off and landing airplane. In this field we have been sort of jumping around the edges in trying to find a way in which we can take this sort of knowledge into that country. I think we will. If you want a Canadian type of thing, then I think a short take-off and landing airplane is a particular kind of Canadian thing, and what we have developed is as good as any in this field.

Senator Grosart: Of the \$1.7 billion exports referred to in page 6 of your brief as cleared through B.C. ports, one billion is United States and one-half billion Japan. Australia is not mentioned, but Oceania has 70 million. That does not leave much for the rest. Are we really discussing only Japanese and Australian relations for the forseeable future?

Mr. Joplin: Certainly; we are discussing matters as they are.

Senator Grosart: Is it going to change much?

Mr. Joplin: I think that this body can probably give some direction in that way; we certainly have an interest in the developing countries.

Senator Grosart: We would hope to and the Government policy paper seems hopeful. However, as a committee we certainly have to consider this and I am sure we are all looking for suggestions as to what we can recommend.

Mr. Joplin: My presentation suggests that the recent announcement by the Minister of Industry, Trade and Commerce regarding assistance in feasibility studies and moving consulting and engineering groups into these countries is one which we in Canadian Pacific Consulting Services welcome.

It is hard to get a man to bring you in to get something started in his country when he is really living from hand to mouth. It is very difficult for a company such as ours to run that type of program without some assurance that the treasure we expend in that area will at least be returned to us in some form, or guaranteed.

We are certainly going to examine this particular program carefully.

Senator Grosart: Do you receive complaints from the Pacific rim with regard to our own tariff and non-tariff barriers?

Mr. Joplin: I really do not think that we get many in that way.

Senator Grosart: I mean from businessmen with whom you deal? Do you get the impression that this is restrictive of the development of two-way trade?

Mr. Joplin: No, but there is a great deal of comment respecting bilateralism in trade. Canada really has to be committed to a multi- rather than a bilateral trading position. When visiting Japan one is frequently reminded of this imbalance of trade. They would like us to buy more

Senator Grosart: To what extent is this imbalance due to our own restrictions? I say that because we are always saying in Canada we are for international free trade, but we keep erecting our own barriers. We are now erecting one against what we call—

Senator Robichaud: Textiles.

Senator Grosart: No, I think that one is understandable, although I complained about it the other day. The minister calls it creditor incentive dumping. In fact, we now have a bill before us saying that if other countries give incentives and subsidies to export trade we will call it subsidy or incentive dumping. I see a degree of hypocrisy in the Canadian stance. Have you heard this at all?

Mr. Joplin: Yes; I do not think it is a really important factor now. While markets are expanding and things are going great everyone is for multilateral trading. We must realize that there has been a credit restriction in Japan and, if you will, a down-turn in their economy. For example, they programmed for 100 million tons of steel and will make 90 million tons this year.

As soon as the situation tightens up all around people talk protectionism. I do not believe that Canada's future lies in that direction, but we cannot go out entirely into the arena without a shield of some kind.

Senator Connolly (Ottawa West): Free trade is tough.

Mr. Hobbs: To the best of my knowledge at the moment this is not a serious problem. The problem when dealing with the People's Republic of China is to establish a fair market value, which is fairly difficult for our Customs and Excise people. In the past they have tended to be rather severe and it will be difficult to arrive at a solution to this problem of establishing market value for products from mainland China.

Senator Grosart: You are now referring to the antidumping regulations.

Mr. Hobbs: Yes.

Senator Pearson: Is there a possibility that Mexico will be competitive with Japan in the foreseeable future in the way of development?

Mr. Hobbs: Do you mean Mexico welcoming development?

Senator Pearson: Yes.

Mr. Hobbs: Certainly the Japanese are active there, but I know of no country where they are not. The free trade area on the northwest corner of Mexico is attracting increasing attention.

Senator Pearson: Are you yourselves involved there?

Mr. Hobbs: No.

Senator Carter: Mr. Joplin may already have given this information, but what lines are your main competitors in the field of shipping?

Mr. Joplin: The world really; it is international and is very tough to enter and deal in.

Senator Carter: Is it concentrated anywhere in one line or country?

Mr. Joplin: No, it is world competition. Our type of business is a world competitive business.

Senator Connolly (Ottawa West): You are in the Japanese economy now; you have partnerships and various arrangements there. Are you in the European Common Market to a comparable extent?

Mr. Joplin: I think not.

Senator Connolly (Ottawa West): The thrust has been to the Pacific.

Mr. Joplin: This is the point I endeavoured to make in my memorandum, that we have been a company with Pacific insterests for a long time, which perhaps has not been realized.

Senator Grosart: The Pacific in your name hardly refers to the offshore Pacific.

Mr. Joplin: It refers to our nature.

Senator Grosart: I will leave for the moment the question of access to markets for our own products. In the Cominco brief a reference is made in the last page to restrictions on Canadian equity investment in local companies. Are these prohibitive at the moment? I think we know the Japanese situation pretty well.

Mr. Hobbs: You mean in Japan?

Senator Grosart: No leaving Japan out. The last paragraph reads:

Elsewhere in the Pacific Rim there are many attractive areas in which mineral exploration is

warranted. In some cases, foreign investment in local resources is discouraged or seriously restricted, or uncertain.

Mr. Hobbs: That was simply a general statement. The state of political development of many countries throughout the Pacific is very much a hodge-podge and it is difficult to be precise in these terms. However, there are many forms of protectionism in the Pacific. I am afraid I cannot be more precise unless we discuss individual countries.

Senator Grosart: I am referring now only to restrictions on Canadian investment in local resources, which we do not normally call protectionism, do we?

Mr. Hobbs: No. In most cases you can invest under local rules. Japan is a notable example where the rules are clear. Australia has rules, as you know, where access to the Australian capital market is equated to the extent of Australian participation. I am not familiar with the current situation in Indonesia, but the history of the country is well known. There is no uniformity, and certainly no specific pattern that is in evidence throughout the Pacific region.

Senator Grosart: What I was getting at was this. Is the Japanese pattern not then universal?

Mr. Hobbs: No sir.

The Chairman: Gentlemen, I do not know whether one of the criteria for judging the success of a presentation is the interest and the good humoured approach that a committee has, but I think you will all agree that the senators seem to have enjoyed themselves here this afternoon. I know it has been very interesting and stimulating for me in my capacity as chairman. I would like to thank you very much indeed, all of you, for coming, for your first rate briefs and for your first rate presentations.

Honourable senators, on November 24, in compliance with a request of the committee, Mr. R. A. Gentles of ALCAN agreed to supply a copy of an ALCAN price list of certain aluminum products. That "Price List" has been received. May I identify this document as Exhibit "2" and arrange that it be retained in the committee's records for the information of the committee?

Hon. Senators: Agreed.

The committee adjourned.

APPENDIX "D"

CANADIAN PACIFIC AND THE PACIFIC

Canadian Pacific Submission to The Senate Committee on Foreign Affairs, Centre Block, Ottawa, Tuesday, December 1st, 1970.

Background

- 1. Canadian Pacific is pleased to have this opportunity to present its views to the Senate Committee on Foreign Affairs.
- 2. Canadian Pacific was incorporated by Federal Statute in 1881. Although it began as a railway, Canadian Pacific today is a very broadly diversified enterprise, with major interests in the fields of transportation, communications, and natural resources.
- 3. Canadian Pacific's interests and operations are world wide. Its railway lines span Canada and portions of the United States; its trucking operations are trans-continental; its airline and shipping interests touch every continent and its investments in natural resources are widely dispersed, both in Canada and abroad.

Canadian Pacific's Early Involvement in Pacific Area

- 4. It is not widely appreciated that Canadian Pacific's involvement with the Pacific area can be traced back as far as July 1886, when, through the vision of Sir William Van Horne, a chartered vessel landed at Port Moody, B.C. a cargo from Yokohama, Japan. The 800-ton brig "W.B. Flint" chartered for a cargo of tea, had set sail for Vancouver some 10 days prior to the actual completion of the Canadian Pacific trans-continental rail route.
- 5. Regular service between Vancouver, Yokohama, and Hong Kong was inaugurated in 1887 with 3 chartered steamers. During the following years CPR's special "silk trains" carried Japanese goods across Canada for New York and European markets, thus completing the first so-called "land bridge" between the Pacific and the Atlantic. The passenger and mail steamship service was introduced in 1891 by the first of the "White Empresses", the "Empress of India", the "Empress of China", and the "Empress of Japan". It is interesting to note that Canadian Pacific's Atlantic steamship service did not commence until some 12 years later, with the purchase in 1903 of the Beaver line from Elder Dempster.
- 6. The growth of passenger and cargo traffic between Vancouver-Victoria and the Orient was such that many new and larger vessels were built and placed in service. Joining the fleet were the "Empress of Russia" and the "Empress of Asia" in 1913. As the original "Empresses" were retired from service, further additions were madethe "Empress of Canada" in 1922, the "Empress of Australia" in 1922, and a new and faster "Empress of Japan" in 1930. Cargo ships were also introduced as trans-Pacific trade developed. The north-Pacific service connected the ports of Vancouver, Victoria, and Seattle with Honolulu, Yokohama, Kobe, Nagasaki, Shanghai, Hong Kong, and Manila. There can be little doubt that this service and its supporting shore establishments represented Canada's first significant commercial interest in this part of the world.

- 7. Canadian Pacific was active not only in the north Pacific, but also in the south Pacific; since 1920, representatives were stationed throughout Australia and in New Zealand. In 1931, Canadian Pacific purchased a half interest in the Canadian Australiasian Royal Mail Line, which operated two passenger-cargo vessels between Vancouver and Sydney, Australia.
- 8. These services were interrupted during the 2nd World War, when Canadian Pacific lost 12 of 18 ships requisitioned by the allied governments.
- 9. In the early 1950's, the cargo-passenger service was re-established on the north Pacific with the vessels "Mapledell" and "Maplecove". However, this service was withdrawn after two years as Canadian-Japanese traffic failed to develop as forecast, while traffic originating from the West Coast states was restricted by American law to U.S. bottoms.
- 10. Four years after the conclusion of hostilities, recognizing the growth prospects of airline service, Canadian Pacific Airlines pioneered service between Canada, and Japan and Hong Kong. The 21st anniversary of the inaugural flight on this service was observed three months ago. Canadian Pacific Airlines also developed routes serving Honolulu, Fiji, New Zealand, and Australia.
- 11. Canadian Pacific's long-standing commitment to the development of Pacific area trade relations can thus be readily and well documented.

Canada and the Pacific

- 12. Overlooked by many Canadians for many years, the tremendous trade and investment potential represented by participation in the Pacific area has recently become the object of widespread national interest. Indicative of the recognition and attention now being given this area are the comments of Mr. N. R. Crump, Chairman of Canadian Pacific, at the May 1970 Annual General Meeting of Shareholders. "It is quite possible that the expansion of markets in the Pacific area in the years ahead will give the Canadian economy the same stimulus that development of European markets gave in earlier periods of our history. With modern means of transportation and communication, the vast Pacific, which was once a formid-dable barrier, now serves as a broad highway linking economies and peoples".
- 13. Reflecting the growing awareness of the Canadian business community, the Canadian Manufacturers' Association and the Canadian Chamber of Commerce have joined corresponding bodies from Australia, New Zealand, Japan, and the U.S. in the formation of the Pacific Basin Economic Co-operation Council. Canadian Pacific participates in the PBECC through its membership on the Canadian Committee, and is giving support to the 1971 annual meeting, scheduled for Vancouver.
- 14. It is Canadian Pacific's view that continuing reduction in tariff and non-tariff barriers to trade is in the best interests of Canada. It is appreciated that the principle of free trade is accepted with varying degrees of enthusiasm in the different economic regions of Canada. However, in

the long run, we are satisfied that all Canadians stand to benefit from the resulting economic efficiencies. Therefore, since Canadian Pacific strongly supports the principle of free trade, we view with concern the recent evidence of growing protectionist sympathies within the U.S. Congress.

- 15. Canada stands to benefit both directly and indirectly from the economic development of all Pacific Rim countries; directly, in the sense of Canadian exports to a particular country, and indirectly, to the extent that economic growth in the Pacific Rim as a whole will strengthen world trade and support Canadian exports generally.
- 16. While one should consider the entire Pacific Rim region, it is clear that Japan, the most rapidly growing, has been and is the key to future Pacific Rim development. It has been the catalyst that has generated boom conditions in Australia and B.C. over the past five years, and will remain the king-pin of economic growth in the Pacific.
- 17. Prospects for a continuing rapid growth in Canadian-Japanese trade appear excellent. Exports from Canada to Japan during the first 10 months of the year increased some 30 per cent over 1969, to \$665 million. 1969's two-way trade exchange with Japan of \$1.1 billion was almost double that of only 4 years ago. The performance thus far in 1970 suggests that it is likely to double again in the next 4 years, largely as a result of long-term contracts already concluded with Canadian coking-coal and copper-concentrate producers, and the growing acceptance within Canada of Japanese capital and consumer goods.
- 18. The impact of Japan upon Canada has been concentrated in B.C., and, to a lesser extent, the other western provinces. For example, Japanese firms have in the past 5 years entered into 26 new joint venture agreements, of which 15 were in copper mine development, 3 in pulp production, and 8 others. All but a couple were in B.C. and Alberta. In both 1968 and 1969, over 80 per cent of total Canadian exports to Japan originated in B.C. and the 3 Prairie Provinces.
- 19. B.C. and western Canada now account for the following percentages of total Japanese imports:

	_	-		
Wheat and Flour		37	per	cent
L.P.G.		10	per	cent
Potash		33	per	cent
Asbestos		50	per	cent
Molybdenum		36	per	cent
Zinc, Ore and Concentrate	es	22	per	cent
Lead, Ore and Concentrate	es	36	per	cent
Nickel, Ore and Concentra	tes	50	per	cent
Pulp		44	per	cent
Copper Concentrates		35	per	cent

Coal will reach a comparable level of importance as deliveries under long-term agreements reach contracted-for levels.

20. Not unexpectedly, much of Canada's export/import trade exchange with Pacific Rim countries is funneled

through B.C. ports. Vancouver is now Canada's busiest port in terms of volume handled. The following table illustrates the value of 1969 exports cleared through B.C. ports and destined for countries bordering on the Pacific.

U.S.	\$	995.6	million
Pacific Latin America		23.3	22
Japan		501.2	23
Other Far East		48.7	2.2
Oceania		70.7	22
U.S.S.R. and People's			
Republic of China		123.0	"
Total	\$1	,762.5	million

21. The above figures clearly indicate the importance of British Columbia ports, and particularly the Port of Vancouver, to this expanding trade. The development of their facilities and their control must continue to reflect the predominant interest of all Canada, as well as the purely local interest.

The Strategic Importance of the Pacific Rim to Canadian Pacific

- 22. Developments within the Pacific area will have a significant impact upon the evolution of Canadian Pacific's planning, and the determining of its priorities. An analysis of the geographical distribution of the Canadian Pacific group's assets and operations will reveal that:
 - (a) CP Rail's transportation plant is favourably situated in western Canada so as to fully participate in the movement of bulk commodities destined for off-shore markets.
 - (b) CP Air has a Pacific-oriented route structure, and is headquartered in Vancouver.
 - (c) CPI's extensive land and natural resource holdings are concentrated in western Canada. CPI units such as Pacific Logging, Fording Coal, and Cominco have substantial and growing business connections with Japan.

It should, therefore, be apparent that Canadian Pacific is in a favourable position to participate in trade and investment activities related to the Pacific area.

Canadian Pacific's Involvement Within the Pacific Area—A Brief Description

- 23. The activities of the Canadian Pacific family fall broadly into two categories: transportation and resource development. A brief description of the major Pacific-related activities, by operating unit, follows:
- 24. CP Rail carries substantial quantities of a broad range of agricultural products and industrial raw materials to Vancouver for subsequent export. Included here are items basic to the economic well-being of Canada, such as wheat and other grains, coal, sulplur, potash, lead and zinc ores and concentrates, copper concentrates, liquid petroleum gas, and woodpulp. At the same time, CP Rail trains move eastward from Vancouver carrying Pacific area products, including agr.cultural products from Australia and New Zealand, and Japanese automobiles, machinery and parts; rooled steel, wire rod, and tubular products; as well as Japanese-manufactured consumer goods. In order to generate additional traffic from

Pacific Rim countries, CP Rail maintains freight solicitation and representative offices in Hong Kong, Tokyo, and Melbourne, Australia.

- 25. As a result of the economic geography of western Canada, CP Rail is the predominant rail carrier of products destined to or originating in the Pac.fic Rim area. CP Rail has, over a considerable period of time, nurtured a slowly growing volume of traffic, and now looks forward to the more exciting growth promised by rapid Pacific-related development. CP Rail is therefore concerned that it should now be facing applications before the Canadian Transport Commission whereby it is proposed that millions of tons of Canadian coal destined to Japanese markets would be shipped over United States railroads between Canadian mines and the Port of Roberts Bank, B.C. This would deny to Canada the full benefits of its growing trade with the Pacific Rim, at the time of tremendous growth in this trade.
- 26. Particular attention recently has been given the development by CP Rail of a unit coal train system, representing a commitment of some \$38 million, to transport coal for Japan between Sparwood, B.C., and Roberts Bank. The \$38 million figure includes \$14 million for thirty-seven, 3,000-horsepower diesel locomotives, \$11 million for 578 new-design gondola cars, plus installation of centralized traffic control, new sidings and track extensions, and improvement to existing track and grades.
- 27. Under existing contracts, CP Rail by 1972 will be moving 10 million tons of coal for export to Japan. This single movement will account for something more than 5 per cent of CP Rail's gross revenues.
- 28. Present contracts for the movement of coal are unquestionably substantial. It is anticipated that further contracts will be consumated. Nevertheless, with relatively minor modifications, the CP Rail system can be expanded so as to accommodate all foreseeable volumes. There is no doubt that CP Rail will be fully capable of responding to this challenge, and we are actively progressing our planning to ensure this.
- 29. CP Air, this wholly-owned subsidiary is presenting its own submission, and further comment will accordingly be deferred. Suffice to say here that CP Air has pioneered the development of travel to the Pacific, and that we look forward to a decade which should witness the evolution of the Pacific area as the world's most exciting tourist and travel growth area.
- 30. Canadian Pacific Investments Ltd, The various operating units within CP Investments are continuing to expand those links with Japan and the Orient originally established so many years ago by CPR.
- 31. Cominco Ltd., a controlled subsidiary of Canadian Pacific Investments Ltd. (53 per cent), joined (45 per cent) with Mitsubishi Metal Mining Co., Ltd. a few years ago in the construction and operation of a lead smelter in Japan. Cominco is also investigating the sale of copper concentrates to Japan. The Pacific Rim represents a major market for many of its products. This subsidiary company is l.kewise submitting its own brief, and further comment will accordingly be deferred.

- 32. In another joint venture, Pacific Logging (wholly owned by CPI) and the Japanese firm C. Itoh and Company Ltd. have constructed a \$3,000,000 lumber mill (CIPA Sawmills Limited, owned 20 per cent by Pacific Logging) at Nanaimo on Vancouver Island. Pacific Logging has contracted to deliver 40 million bd. ft. of timber per annum to this mill. CIPA's production is exported to Japan for distribution by the C. Itoh group.
- 33. Fording Coal Limited, jointly owned by CPI and Cominco (60 per cent CPI, 40 per cent Cominco), has begun initial development of extensive coal properties in the Kootenay area. Delivery on the Company's 15-year, 45 million ton, coal contract with the Japanese steel industry will begin in 1972. Capital cost of the project is estimated at \$80 million, with the total value of the sales contract approximately \$650 million. It is hoped that as further reserves are proven, additional sales contracts will be concluded.
- 34. Continued growth of Canada's coal exports to Japan is expected. With existing contracts, delivery will soon exceed 12 million tons annually and Canadians are hopeful that further sales contracts will be consumated. This growth has led to the following more recent development within Canadian Pacific.
- 35. ShelPac Research and Development Limited, jointly owned by Canadian Pacific and Shell Canada Limited, was established in 1969 to undertake research and development in the field of solids pipelines generally. Amongst the projects under evaluation are a number proposed with a view to Pacific area markets.
- 36. Cascade Pipelines, a wholly-owned subsidiary of Canadian Pacific, is considering the construction of a 490 mile pipeline to carry B.C. coal in slurry form from the Kootenay area to Roberts Bank, where the coal would be re-shipped to Japan. Construction of the \$200 million pipeline could start as early as 1972. A group made up of representatives of Cascade P pelines, the Federal Department of Energy, Mines and Resources, and ShelPac visited Japan last summer to make a preliminary technical presentation to the Japanese steel industry. In October, a group of technical officials of Japanese steel companies visited Canada to inspect the proposed route, and a pilot plant for the re-constitution of slurry coal; to witness the preparation of commercial coke from slurried coal; and to discuss the project with representatives of Cascade, ShelPac, and the Department of Energy, Mines and Resources. Canadian Pacific fully expects that slurried coal will meet the technical requirements of the Japanese steel industry, and that Canad an Pacific will be in the forefront of this new transportation technology.
- 37. CanPac Minerals Limited, a wholly-owned subsidiary of CPI, CanPac is actively exploring various thermal and metallurgical coal properties in both Alberta and B.C. The activity of this company is, to a large degree, in response to the anticipated demands of the Japanese steel industry. Although considerable interest has been evinced by Japanese trading and industrial concerns, no joint venture or trading agreements have been concluded.
- 38. Canadian Pacific Consulting Services Limited, a wholly-owned subsidiary of Canadian Pacific, functions internationally as a broadly-based engineering and eco-

nomic consultant to government and business. Canadian Pacific Consulting Services welcomes the recent expressions of increased Canadian Government interest in the Pacific, and the implications for Pacific area development assistance projects. The Pacific area has always been of great interest to the Consulting Company, which welcomes the proposed risk sharing system for Canadian consulting firms performing feasibility studies, as described to this Senate Committee on November 4th by the Minister of Industry, Trade and Commerce.

- 39. Shipping. Canadian Pacific's bulk shipping subsidiary has purchased its entire fleet of 10 ocean-going vessels, totalling some 860,000 TDW, at a cost of U.S. \$76 million, from Japanese yards. A number of those vessels currently in service are engaged in Pacific area trading. The "Pacific Logger", a 16,000 TDW log and lumber carrier, is chartered to C. Itoh and Company. The "T. Akasaka" and the "W. C. Van Horne", 57,000 TDW bulk coal carriers, are under contract with another Japanese trading company, Marubeni-Iida, for the majority of their capacity.
- 40. CP Transport, as one of the largest trucking operations in western Canada, benefits indirectly from economic activity attributable to Pacific Rim-related foreign trade.
- 41. CP Telecommunications offers, jointly with Canadian National, a wide range of communication services, including telex. The CN-CP facility, linked with a worldwide network, permits the Canadian subscriber to communicate with other terminals around the world, and throughout the Pacific area.

Comment on the "Foreign Policy for Canadians—the Pacific"

42. Canadian Pacific welcomes the apparent intention of the Canadian Government to emphasize a more active role for Canada in the Pacific Rim area.

- 43. Canadian Pacific welcomes the Government's decision to consider the establishment of a Pacific Economic Advisory Committee, particularly as it concerns itself with investment possibilities in the Pacific area.
- 44. Canadian Pacific welcomes the establishment of formal diplomatic relations with the People's Republic of China, and is hopeful that such relations will in turn lead to closer commercial ties, including the establishment of a bilateral commercial air agreement.
- 45. Canadian Pacific supports the efforts of the Government directed toward lowering or removing Japan's nontariff barriers to Canadian exports, and to spending up opportunities for Canadian investment in that country. Conclusion
- 46. Canadian Pacific has since its inception been active in Pacific area trade development.
- 47. The countries of the Pacific area exhibit the world's fastest economic growth rates.
- 48. Trade exchange among Pacific Rim countries is expanding faster than overall world trade.
- 49. The distribution of the Canadian Pacific group's assets and operations is such that Canadian Pacific is well situated to participate in Pacific area trade and investment opportunities.
- 50. It is anticipated that Canadian Pacific's interests will be increasingly focused on the Pacific area, and that, while trade with the rest of the world will always be important, its interest in the Pacific area will represent an increasingly larger share of Canadian Pacific's total involvement.
- 51. Canadian Pacific, therefore, very much welcomes these hearings as evidence of an awakening government interest in the Pacific, and is pleased to have this opportunity to present its views on this very important topic.

APPENDIX "E"

CP AIR IN THE PACIFIC

- I History of CP Air
- II Market Growth—Air Transportation
- III Tourist Industry Growth
- IV International Balance of Payments From CP Air Operations in the Pacific
- V CP Air Employment Statistics
- VI CP Air Payments for Services
- VII CP Air Student Travel Scholarship Program
- VIII Transportation and Communication Requirements for the Developing Nations
- IX Summary

I History of CP Air

Canadian Pacific Air Lines, Limited, now known generally as CP Air, has been Canada's flag carrier in the Pacific since July 1949. This is a relatively short period compared to the historical association of its parent company, Canadian Pacific, in this expanding area of our international community.

In July 1949, CP Air inaugurated the first Canadian scheduled airline service between Vancouver, Canada and Sydney, Australia, which has become known as its South Pacific route. This route also includes service to Honolulu, Hawaii and Nandi, Fiji.

In September 1949, CP Air inaugurated service to Tokyo, Japan and Hong Kong which has become known as its Orient route. CP Air's licence includes Shanghai, China which it served briefly during 1949.

Another significant milestone in CP Air's history in the Pacific occurred in January 1967 when service was established between Vancouver and San Francisco which enabled it to develop a market that has had an historical and continuing community of interest with the Orient as well as the west coast of Canada.

Its South American route, serving Mexico City, Mexico, Lima, Peru and Santiago, Chile, while bordering on the Pacific Ocean, are excluded from this presentation. These cities have been served by CP Air since 1957.

Financial data with respect to the operation of CP Air may be found on pages 23 through 30 of the 1969 Canadian Pacific Annual Report which is made a part of this presentation.

II Market Growth-Air Transportation

Today's jet travel makes it possible for businessmen to meet and trade face-to-face. Many customers are almost commuters, crossing the Pacific several times each year. Such face-to-face transactions not only lead to better business relations but surely must contribute to improved international understanding and appreciation of other nations, their citizens and their problems.

CP Air, then, is an important catalyst in our country's foreign trade relations. The growth of air transportation markets in the Pacific can probably be best visualized by reference to the limited statistical data available.

In the table on page 4 several specific points have been listed to provide some concept of the size of the market moving from North America. This is the predominant direction for the pleasure traveller due to the larger discretionary income available to members of the more affluent societies.

The market may be divided into segments as shown in the table on page 5.

To permit some measure of the number of immigrants to Canada from these areas, the majority of whom arrive by air, the data is shown in the table on page 6.

The table on page 7 shows the number of non-immigrant visitors (business and pleasure) entering Canada from Pacific rim countries by all modes of travel.

The revenue statistics as shown in the tables on pages 8 and 9 demonstrate CP Air's continued growth in the Pacific.

If Canada is to obtain its share of the Pacific air transportation market, which is growing at a rate in excess of 15 per cent per annum, vigour and imagination will be required to negotiate the necessary bilateral air agreements. These negotiations can only be pursued when the order of priority has been established as the result of (1) marketing studies and, (2) the mutual agreement of the Canadian government and the Canadian flag carrier, which in this geographical area, is CP Air. To this end, task force(s) should be established to aggressively seek out those opportunities that would best serve Canadian interests and to implement action as soon as the long term economic forecasts have been established.

It is important to emphasize that the Canadian flag carriers are severely regulated by the terms of bilateral agreements. The severity of the terms increase as each country becomes more aware of the long term value of a bilateral air agreement and thus places a higher price on its endorsement. This price is not necessarily paid for by reciprocal traffic rights but possibly by other considerations. In a recent public address, a spokesman for the U.S. State Department defined the situation most succinctly:

"...The difficulties our carriers face also compel us to scrutinize with great care attempts to inject factors outside the aviation exchange into the negotiaing process. To be sure, our political relations with a bilateral partner cannot be ignored in negotiations, but I think it is fair to say that general foreign relations credits should generally be cashed outside the aviation area."...

Therefore speed is of the essence in seeking out and establishing Canada's air transportation opportunities in the Pacific. Nevertheless, it is necessary to emphasize that a thorough market analysis is the prerequisite for

successful bilateral negotiations and speed must be adjusted accordingly.

CP Air desires to work with the appropriate government agencies to achieve these most important goals.

NORTH AMERICAN VISITORS TO SELECTED COUNTRIES

(Rounded to nearest hundred)

Country	1966(1)	1967(1)	1968	1969
Australia				
United States	27,200	32,700	$39,400^{2}$	50,0002
Canada	4,000	4,600	6,100	7,500
Fiji		-		
United States	10,200	12,800	$16,600^3$	22,3003
Canada	1,300	1,700	2,300	3,700
Hong Kong				
United States	142,800	140,300		
Canada	9,700	8,400	N.A.	N.A.
Japan				
United States	224,500	235,500	N.A.	N.A.
Canada	11,800	11,100	13,3004	16,9004

Source: 1 PATA-3rd Annual Statistical Report.

² Commonwealth Bureau of Census and Statistics.

³ Fiji Bureau of Statistics.

⁴ Japan Air News.

CP AIR MARKET SEGMENTATION BY ROUTE

Route	% Business	% Pleasure	% Other
Orient	36	52	12
South Pacific			
Canada-Hawaii	7	90	3
Hawaii-Fiji	22	70	8
Fiji-Australia	22	70	8

Source: CP Air Records.

IMMIGRATION TO CANADA FROM PACIFIC AREA BY COUNTRY OF FORMER RESIDENCE

Country	1966	1967	1968	1969
China	4,094	6,409	8,382	8,272
Japan	509	930	693	766
South Korea	189	620	850	880
Indonesia	19	11.	77	138
Malaysia	98	199	169	295
Philippines	2,639	2,994	2,678	3,001
Singapore	36	109	79	175
Thailand	13	24	33	33
South Vietnam	11	24	57	110
Australia	3,329	4,967	3,710	3,526
Fiji Islands	271	172	253	590
New Zealand	728	1,201	1,105	885

Source: Quarterly Immigration Bulletin; Department of Manpower and Immigration.

NON-IMMIGRANT VISITORS ENTERING CANADA FROM PACIFIC RIM COUNTRIES

(Rounded to nearest hundred)

	1966	1967	1968	1969
Australia	13,900	14,100	12,900	14,700
Formosa	N.A.	N.A.	1,000	1,100
Hong Kong	1,900	4,000	4,000	5,200
Japan	19,500	19,000	12,500	18,500
New Zealand	4,900	5,100	4,100	5,100
Philippines	N.A.	N.A	2,400	2,500
Other Asia	N.A.	N.A.	5,000	6,000
Other Oceania	N.A.	N.A.	700	800

Source: DBS No. 66-001.

CP AIR—CARGO UPLIFT AND REVENUES (Thousands)

	19	1966		67	19	68	19	69	(Est.) 1970	
	Pds	\$	Pds	\$	Pds	\$	Pds	\$	Pds	\$
Route Orient	1,678	2,133	1,864	2,329	2,762	3,238	2,901	3,223	2,164	2,579
South Pacific	639 -	280 .	972	420	1,106	473	1,566	713	1,621	900

CP AIR—MAIL UPLIFT AND REVENUES (Thousands)

	1966		190	67		19	168	1969			···· (Est.) 1970		
	Pds	\$		\$		Pds	\$		Pds		Pds	\$	
Route													
Orient	448	1,143	741	1,969	,	740	2,056		924	2,689	1,561	4,154	
South Pacific	90	169	121	216		104	249		142	452	139	402	

CP AIR—PASSENGER UPLIFT AND REVENUES (Thousands)

	1966			1967		1968	1969		1970	
-	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$
Route										
Orient	15 .	9,366	30	10,855	35	11,834	36	12,163	42	13,048
South Pacific	52	7,674	60	9,243	62	9,348	68	9,886	76	10,400

III Tourist Industry Growth

Tourism invites special consideration because of its particularly promising growth throughout the Pacific. Canada's expertise, gained from the successful development of its tourist industry, which produces a substantial portion of the Canadian GNP, and is a major source of credit to the Canadian balance of payments account, should indeed be most marketable.

CP Air invests substantial sums each year in the development of Pacific tourism through advertising, publicity and sales promotion. As an example, one of the most successful travel industry promotions in 1969 was the CP Air—"Pacific Travel-In" which cost in excess of \$50,000.

In 1969/70 sales promotion expense, as distinct from media advertising expense, will exceed \$100,000 for the Pacific rim countries.

The annual advertising expenditures for the promotion of its services in the Pacific area, directed to potential customers both into and out of Canada, has been in excess of \$450,000 per year. The local media in the countries which we serve, benefit directly from this investment.

Every country is aware that tourism is an essential ingredient to its economic health, providing as it does immediate earnings of foreign exchange. Therefore, it is one of the first areas to receive strong local government support. Canada should market its tourist "know-how" to developing countries through the services of technical consultants. This will be mutually beneficial in terms of a balance of trade through the sale of Canadian goods and services abroad and the generation of Canadian tourist visitors to the host country.

The only way in which Canada can evaluate the opportunities with respect to the tourist industry potential in the Pacific, is to ensure that government and business work as a team to complete the necessary market analyses. There is no substitute for "doing one's homework" as evidenced by the aggressive marketing techniques of Japan and the United States. Australia is beginning to show a similar approach.

At the moment there does not appear to be any agency through which the present fragmented Canadian efforts are co-ordinated. Perhaps this situation could be corrected if the government established a Pacific Economic Advisory Committee as noted on page 19 of its publication entitled—Pacific; Foreign Policy for Canadians under the heading "Business—Government Liaison".

IV International Balance of Payments from CP Air Operations in the Pacific

Canada's balance of payments is a sensitive indicator of its internal economic well being. Canada's successful exploitation of its tourist industry has resulted in a substantial contribution to the GNP and to the credit side of the international balance of payments account. This expertise should be most marketable internationally, as noted in Section III. The following tabulation shows that CP Air's operations in the Pacific have this year produced a favourable net position. These data indicate the financial benefits that can accrue to Canada if it develops its air transportation opportunities.

*Net Balance of Payments

From

CP Air Operations

(Canadian Dollars)

(Jan.-Oct. 1970 Actual)

(Nov.-Dec. 1970 Estimated)

Hong Kong		1,000,000
Australia		833,000
Japan		2,930,000
Fiji		
New Zealand		749,000
Manila		283,000
Taiwan		107,000
	Total	5,902,000
	10001	

^{* (}Net excess of receipts over disbursements) 23150-3

V CP Air Employment Statistics

The table on page 14 shows the number of employees required to meet all its marketing, operating and managerial needs. A quick inspection will reveal that there has been a recent steady growth in numbers.

This table, while statistically correct, cannot display all the facts. CP Air, like most international air lines, purchases the major portion of its technical services from one of the national carriers of the countries through which it operates. For example, CP Air is serviced in Sydney, Australia, by Australia National Airlines; in Tokyo, Japan by Japan Air Lines. On the other hand CP Air services Japan Air Lines on its flights into Vancouver. The payments for these services of course contribute directly to the several local economies.

For the marketing of its services C.P. Air, like its international competitors, uses the services of travel agencies and freight forwarders. The payment of commission expenses also contribute directly to the local economies.

CP Air has wherever possible hired and trained nationals to meet the requirements of its labour force. It is incumbent upon a multi-national company to contribute in a positive way to developing countries if it wishes to achieve acceptance and success.

TOTAL NUMBER OF CP AIR EMPLOYEES

PACIFIC COUNTRIES

	1966	1967	1968	1969	1970
Japan	51 .	57	68	74	. 78
Hong Kong	36	39	40	43	45
Australia	12	10	9	15	16
New Zealand	9	6	5	. 7	5
Fiji	2	3	3	3	. 6
Hawaii	22	27	33	35	36

VI CP Air Payments for Services

CP Air contributes substantially to the economy of each country that it serves directly (Japan, Australia) and to countries that it serves indirectly (Philippines, Malaysia). The following tables provide data which indicate the aggregate amounts that we have paid in recent years. The payments for services mentioned previously in Section V are included in these data.

The payments for salaries and wages are shown on page 16.

The table for landing fees which are a significant element in the total operating cost are shown on page 17.

The total expenses which do not include landing fees but do include the wages and salaries expenses are shown on page 18.

CP AIR—SALARIES AND WAGES EXPENSE—PACIFIC RIM COUNTRIES (Thousands of Dollars)

(3. 2.0 0.00										
	1966	1967	1968	1969	(Est.) 1970					
Australia	58	60	62	80	96					
Hawaii	214	259	268	323	391					
Fiji	9	12	11	13	19					
New Zealand	39	40	34	32	29					
Japan	193	252	239	317	295					
Hong Kong	117	122	142	153	164					
Off-Line Seoul, Korea Bangkok, Thailand Manila, Philippines. Taipei, Taiwan Singapore. Djakarta, Indonesia	3	4 4 4 4	5 4 4 3 4	5 6 4 4 6	6 5 3 2 7					

CP AIR—LANDING FEES—PACIFIC RIM COUNTRIES (Thousands of Dollars)

	1966	1967	1968	1969	(Est.) 1970
Hong Kong	65	71	69	71	70
Tokyo	97	116	131	132	155
Sydney	20	19	28	57	55
Auckland*	14	14	14	5	
Nandi	58	50	57	68	62
Honolulu	61	46	42	40	80

*Auckland cancelled in April, 1969.

CP AIR SALES AND OPERATING EXPENDITURES— PACIFIC RIM COUNTRIES

(Thousands of Dollars)
(does not include landing fees)

Route	1966	1967	1968	1969	(Est.) 1970
Orient Japan Hong Kong	695 329	899 358	1,046 417	1,107 461	1,207 503
South Pacific Hawaii. Fiji. New Zealand. Australia.	513 37 97 123	833 53 112 145	941 64 90 152	1,091 64 65 238	1,181 85 49 269
Off-Line Sales Seoul, Korea. Bangkok, Thailand. Manila, Philippines. Taipei, Taiwan. Singapore. Diakarta, Indonesia.	7 — —	8 7 13 8 7	11 7 14 7 7	11 10 17 8 9	17 15 17 6 12

VII CP Air Student Travel Scholarship Program

CP Air has recently introduced a travel scholarship program with the assistance of advisors from the Department of External Affairs. These scholarships provide transportation via CP Air to the destination in Canada closest to the educational institution which the student will attend.

Annual scholarships have been established, two for Australia and two for Fiji. The program will be extended in the near future. The terms under which the Australian scholarship is awarded are shown at the end of this section. In the case of Fiji the scholarships need not be used for post-graduate university training but may be used for specific smi-professional trade training at a technological institute or its equivalent.

CP Air believes that educational assistance to the developing countries should be promoted by the direct application of Canadian talents within the country at the local level. Too often the scholarship programs for postgraduate training in Canada have constituted a "brain drain" since students have remained in Canada after graduation.

The educational needs of the developing nations offer a potential market for Canada's educational expertise and equipment in exactly the same manner as they do for the tourist industry. Therefore Canada should ascertain the educational needs in these countries and develop innovative solutions to them. For example, a portable classroom designed to meet local conditions with a built-in electrical power supply would enable the teacher to use sophisticated audio-visual training techniques. To-day's technology can and must introduce teaching methods which accelerate the acquitision of basic skills by the native population. The continued use of the textbook system based upon inappropriate and outdated materials will not meet national expectations or develop self-sufficiency.

CP Air may have a role to perform in the areas of basic training since it has developed its own technical training programs and operates a training department with an annual budget of \$480,000.

It would seem appropriate to mention in this Section the apparent need to establish a Canadian Institute of Pacific Studies to co-ordinate the current research activities of the many private institutions, university faculties and governmental agencies. Perhaps this will be the final result if and when the government follows through with the proposals outlined on page 21 and 22 of its publication Pacific; Foreign Policy for Canadians under the headings, "Canadian International Development Research Centre" and "Learning about the Pacific". There are limited funds to devote to these tasks and efficient co-ordination is essential for the best application of such a scarce resource.

Australian Vice-Chancellors' Committee Canadian Pacific Airlines Award for Travel to Canada for University Graduates

RULES

1. The Award

Canadian Pacific Airlines will offer two free economy class return flights a year from any airport in Australia used by the Company to any airport in Canada used by the Company. The award will not include the fares of the family of an award holder.

2. Eligibility

Candidates must be graduates of an Australian university. The award will not be available to permanent staff, students who hold or are already enrolled for a Ph.D., or students who hold another award which pays all or part of the fare.

3. Conditions of the Award

Candidates must be Australian citizens or permanent residents of Australia and, before their departure, be able to assure the Company that

- (a) they have been accepted at a Canadian University.
- (b) that they are able to support themselves for the period of their stay in Canada while studying on a full-time basis,
- (c) that they intend to return to Australia on completion of their studies.

4. Duration

It is expected that as a rule candidates will study in Canada for a duration of at least one academic year, and normally an award will not be made to a candidate proceeding to Canada for less than this period.

5. Selection

Selection of candidates shall be in the hands of the universities, and the Australian Vice-Chancellors' Committee. All applicants will be required to complete an application form which is to be forwarded to University Registrars by 31 May in the year in which the award is to be taken up. The forms of selected candidates are to be forwarded to the Canadian High Commissioner before 30 June in the same year. The High Commissioner will then proceed to offer the award in July.

VIII Transportation and Communication Requirements for the Developing Nations

The economic growth and eventual political stability of the developing countries requires large expenditures for transportation and communications services. Canada's experience in the continuous development of its own territory has built up a technological base in these service industries that could be immediately marketable. Canada is an acknowledged leader in tug and barge water transportation, micro-wave communication and short take-off and landing air transportation systems.

The original airlines, that were consolidated to form CP Air, came into being in the mid-1920's because of the need to provide transportation services for the development of Canada's northland. Therefore it can speak with authority on Canada's ability to establish short-haul air transportation services in developing countries.

Of course CP Air believes that the development of an economically viable short-haul air transportation system within a country or between a group of countries will enlarge its markets. In this context CP Air may be able to assist the development of short-haul air services by supplying management "know-how" and training in the initial stages.

Reference should be made to Special Study No. 12 entitled "Aeronautics—Highway to the Future", prepared this year for the Science Council of Canada which states Canada's pre-eminent position in the field of STOL transportation systems. Immediate recognition should be given to the recommendation shown on page 7 which states:

"... The results of the study indicate that the most challenging avenues open to Canadian manufacturers of complete aircraft appear to be based on their existing and potential capability to design and develop STOL aircraft systems."...

CP Air is vitally interested in all trade developments in the Pacific and may be able to contribute specifically to the development of short-haul transportation systems.

IX Summary

CP Air inherited a great tradition of service on the Pacific that reaches back to the completion of the first Canadian transcontinental rail link. It truly reflects Canada's pioneering spirit. It is proud to bear the distinction of being Canada's flag carrier in the Pacific.

Twenty-one years of air service in this area has made CP Air a valuable instrument for the advancement of Canada's interest. We want to participate in the definition and creation of Canadian policies in the Pacific. We believe there are ample opportunities that will challenge the resourcefulness of both public and private sectors of our economy.

APPENDIX "F"

COMINCO IN THE PACIFIC

Established in 1895 and incorporated in 1906, Cominco today is the world's largest integrated producer of refined lead and zinc and a major producer of silver and chemical fertilizers.

The Company has over 39,000 shareholders, of whom 94 percent have registered addresses in Canada and, with its subsidiaries, employs some 10,000 people. The head office is in Montreal; the chief operating offices in Vancouver; and the main mining, metallurgical and chemical operations situated in Trail and Kimberley in southeastern British Columbia.

Sales in 1969 amounted to some \$250 million. Seventy-five percent of the lead and zinc and 60 percent of the chemical fertilizers produced are sold in foreign markets, principally in the United States.

In the United States, Cominco American Incorporated, a wholly-owned subsidiary with assets of \$68 million, is engaged in mining, high purity metal fabrication and the manufacture and sale of chemical fertilizers.

Through subsidiary or affiliated companies the Company also has operating and marketing facilities in Japan, India, United Kingdom and Germany.

Some \$11 million was spent on mining exploration in 1969, most of this in Canada and through Cominco American Inc. in the United States. The exploration effort is however world wide—geared to the geological potential and the political tax climates in many countries.

Metal Production

The Company has been producing refined non-ferrous metals for almost 70 years. The world's first electrolytic lead refinery was built at Trail in 1902 when production was 4,000 tons of refined lead. In 1916, the first year of production, the electrolytic zinc plant at Trail produced 1,500 tons of refined zinc. Refined zinc production in 1969 reached an all-time record of 225,000 tons; refined lead was 196,000 tons.

Early in 1970, these facilities poured the 8 millionth ton of refined lead and the 7 millionth ton of refined zinc.

For a number of years Cominco was the sole producer of lead and zinc in Canada. Since its inception the bulk of the metal production has been sold in Canada, the United States and Europe.

A major part of the feed for the Trail operations comes from the Sullivan mine at Kimberley, B.C., in production since 1909. The Trail plants also receive concentrates from the Bluebell mine in southeastern British Columbia, and substantial amounts from the operations of Pine Point Mines Ltd. in the Northwest Territories. Cominco has a 69 per cent interest in this latter company.

The Con-Rycon mines at Yellowknife, N.W.T. have been producing gold since 1938. Copper and iron concentrates are shipped to Japan from the Coast Copper mine

on Vancouver Island. The Pinchi Lake mine in north central British Columbia began producing mercury in 1968.

The Company produces ultra-high purity metals. Cominco American's production facilities in Spokane, Washington, fabricate and sell, world-wide, ultra-high purity metal components for the electronics industry.

National Hardware Specialties, a wholly-owned subsidiary, operates zinc die-casting and plating plants in Ontario.

Iron concentrates from the Sullivan mine are converted into pig iron and steel at Kimberley; scrap is the feed material for the steel produced by Western Canada Steel, a Cominco subsidiary, at Vancouver and Calgary. The steel produced from both these sources is processed further into rolled steel products and industrial fasteners by Western Canada Steel Limited. Western Canada Steel has an interest in a 40,000 ton capacity reinforcing bar plant in Honolulu, Hawaii and operates, under lease, the plant in Calgary.

Chemical Fertilizer Production

Construction of plants for the manufacture of fertilizers began in 1930. In 1931 production of ammonium sulphate and ammonium phosphate commenced; about 25,000 tons were produced and sold in North America. Additional fertilizer plants have been brought into production at Calgary, Alberta nd Kimberley, B.C., providing a current capability of producing nearly one million tons of fertilizers a year.

Cominco American owns and operates a 40,000 ton per year fertilizer plant at Beatrice, Nebraska, and is a partner in a 1,000 ton per day ammonia plant at Borger, Texas. A distribution system, involving an 850 mile pipeline, delivers the ammonia from this plant to the U.S. mid-west.

In 1968, Cominco brought into production a 1.2 million ton capacity potash mine at Vanscoy, Saskatchewan.

SALES IN THE PACIFIC RIM

Non-Ferrous Metals

Cominco's predecessors first sold to countries in the Pacific Rim in 1902 when approximately 1,000 tons of refined lead, plus smaller quantities of lead bullion and silver, went to the Orient (chiefly China and Japan). These two countries constituted the main "Pacific Rim" purchasers until the early 1920's when they were joined by India and other countries in S.E. Asia.

From 1902 to 1937 some 800,000 tons of refined lead and zinc, plus small amounts of sundry metals (bismuth, silver, cadmium, etc.) were shipped to the major Pacific Rim countries.

From 1937 to date almost 750,000 tons of refined lead and zinc (\$140 million) were shipped to India and the Far East. India has been the chief purchaser—230,000 tons.

In the early 1960's the emphasis on metal exports to Pacific Rim countries shifted from refined metals to ores and concentrates. Since 1962 a combined total of 960,000 tons of lead, zinc, copper and iron concentrates were sold to India and Japan, valued at over \$65 million.

The Pacific Rim area has been a valuable market. Since 1902 over 2 1/2 million tons of metal products and concentrates have been shipped to these countries for aivalue of \$275 million. This represents approximately 15 per cent of the output to date. Currently, over \$25 million worth of contracts are yet to be executed.

Fertilizers

In 1932 the Trail plant produced 61,000 tons of fertilizers. Almost half of this production was exported to the Hawaiian Islands, China, Japan, India, Australia and the "East Indies".

Since 1932, 3.7 million tons of fertilizers have been shipped to overseas markets. Of this total, 3.3 million tons—90 percent—have been exported to India, Pakistan and Pacific Rim countries (excluding Central and South America). These sales approximated \$135 million.

Except for Colombo Plan shipments to Pakistan and India, little has been exported to these markets since the mid 1960's.

PLANTS IN THE PACIFIC RIM

Japan

Cominco, in 1962, learned that the Government of Japan had decided to provide a subsidy of \$28 million to improve the non-ferrous metals industry in that country. It was felt the Company could secure an enduring position in Japan by utilizing its capabilities in resources, technical ability and capital. Such participation was considered important for market protection since others had already started negotiating with the Japanese for participation in a smelter based on Australian resources.

Mitsubishi Metal Mining Company agreed to set up a lead smelter in collaboration with Cominco. Mitsubishi Cominco Smelting Company, in which Cominco has a 45 per cent interest, was incorporated in 1962. Construction of a 40,000 ton lead smelter at Naoshima, Japan, was completed in May, 1966. During 1969 production was 33,600 tons of refined lead.

India

While not in the Pacific Rim, the Company's interest in India should be noted.

In 1960, the Government of India stated its intention of encouraging the local production of lead and zinc as a measure for conserving foreign exchange. Import restrictions on metals being imposed by the Government further threatened this market. In addition, it was felt that a smelter in India would provide a footing for the preferential expansion of metal exports from Canada, and an entry into the fertilizer business in India.

Cominco Binani Zinc Limited, a company in which Cominco has a 40 per cent interest, was incorporated in 1962 by Cominco and Metal Distributors Limited of Calcutta. Based on concentrates supplied by Cominco, the first electrolytic zinc to be poured in India was produced in 1967 at the plant at Alwaye, Kerala State. The plant consists of a 22,000 ton zinc smelter and an adjacent sulphuric acid plant. Currently about 50 per cent of the smelter's requirements is supplied by concentrates from Pine Point Mines Limited. During 1969, 14,600 tons of refined zinc and 23,600 tons of acid, was produced at this plant.

CURRENT PROJECTS INVOLVING ACTUAL OR POTENTIAL SALES IN THE PACIFIC RIM

Fording Coal

Fording Coal Limited, with coal deposits in the Crows Nest Pass area of British Columbia, is a recent mining project which Cominco, with a 40 percent financial interest, is managing. Negotiations with a consortium of Japanese steel interests were completed in 1969 and contracts have been signed to sell 3 million long tons of coal a year for 15 years (\$600 million). Production is scheduled to begin in 1972. There is a possibility of additional sales being made from that mine although these may not necessarily be in the Pacific Rim.

Valley Copper

The Valley Copper property in British Columbia contains low grade porphyry copper deposits. Cominco has a 69 percent interest in this property.

Discussions have been held with a consortium of Japanese smelting and trading companies for the sale of the copper concentrates. Possibilities of long term contract sales have also been discussed with U.K. and European companies.

EXPLORATION IN THE PACIFIC RIM

In the last five years Cominco has greatly expanded its exploration effort outside of North America. This expansion has included two of the Pacific Rim countries—Australia and Mexico. Both of these countries are attractive because of their geology, long history of mineral production, political stability and interest in utilizing foreign capital to develop their resources. (In Mexico, which is outside the area under consideration, a continuing program has been in progress for the past three years).

In Australia, an active exploration grogram commenced some five years ago, is being carried out by a subsidiary, Cominco Exploration Pty. Ltd., with a present budget of about \$500,000 a year. With success in locating a deposit warranting development, expenditures could be greatly expanded.

Elsewhere in the Pacific Rim there are many attractive areas in which mineral exploration is warranted. In some cases, foreign investment in local resources is discouraged or seriously restricted, or uncertain. Explora-

tion in such areas will, therefore, be dependent on local political considerations. The interest of such countries in the development of their mineral resources might be

stimulated. Specific mineral deposits have from time to time been examined in Pacific Rim countries, such as. New Zealand, Taiwan and Thailand.

Queen's Printer for Canada, Ottawa, 1970









THIRD SESSION—TWENTY-EIGHTH PARLIAMENT
1970

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

Foreign Affairs

The Honourable JOHN B. AIRD, Chairman



TUESDAY, DECEMBER 8, 1970

Respecting

THE PACIFIC AREA

(Witness:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman
and

The Honourable Senators:

Belisle McElman
Cameron McLean
Carter McNamara
Choquette Nichol
Connolly (Ottawa West) O'Leary (Carleton)

Croll Pearson
Eudes Quart
Fergusson Rattenbury
Gouin Robichaud
Haig Sparrrow
Hastings Sullivan

White

Yuzyk—(30)

Laird Lang Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier
Clerk of the Senate

Minutes of Proceedings

Tuesday, December 8, 1970. (8)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Carter, Connolly (Ottawa West), Eudes, Grosart, Laird, Lang, McNamara, Pearson and Robichaud—(10).

Present but not of the Committee: The Honourable Senators Casgrain and Lafond—(2).

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade. Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

Witness heard:

Dr. Hedley N. Bull,

Professor of International Relations at the Australian National University, presently on sabbatical leave at the Institute of War and Peace, Columbia University, New York.

The Chairman (Senator Aird) thanked the witness for his assistance to the Committee.

At $5.22\ p.m.$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, December 8, 1970

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, this afternoon we are turning to a new and most interesting topic concerning our study of Canadian relations with the countries of the Pacific region. Looking over a map of the area, it would be an obvious understatement to say that security in the Pacific is a basic element in the over-all global balance of power.

It is also clear that the welfare and progress of the Pacific nations can only be achieved, as the Government's policy paper says, "if there is a reasonable measure of peace and security in the area".

To introduce this complex and critical subject we have invited Professor Hedley Bull, who is Professor of International Relations at the Australian National University in Canberra. Fortunately, Professor Bull is on sabbatical leave this year and has come here today from his temporary base at Columbia University in New York. Just as an aside, Professor, it would seem that you have come here under rather adverse weather conditions.

Our members have all received copies of Professor Bull's recent article entitled "Asia in the Seventies". This short article, in my opinion, displays a remarkable grasp of the international security situation and offers numerous insights into security problems in the Pacific. I think that we, as Canadians, will benefit particularly from hearing an expert Australian viewpoint because by virtue of geography alone our Canadian perspectives are very different.

I understand that Professor Bull is prepared to make an introductory statement, honourable senators, and I am most interested to announce that he has no notes with him but is going to do it directly "off the top of his head", which I might say, sir, is a remarkable innovation in this committee.

Senator Grosart: And a good one.

The Chairman: Professor Bull indicates to me that his statement will probably be about 25 minutes in length, after which we will proceed to the questioning. In accordance with our usual procedure, I will call upon Senator Laird to lead and then will go to the rest of the committee.

You may proceed, if you wish, Professor.

Professor Hedley Bull, Professor of International Relations, Australian National University, Canberra: Thank you, Mr. Chairman. I think it is obvious that there grew up in the 1950s a pattern of power relationships in the Pacific area which in the course of the 1960s has been disintegrating and in the course of the 1970s will give place to something quite new. I believe that pattern will be governed primarily by the relationship of three great powers, the United States, the Soviet Union and China, and that the principal uncertainty of the 1970s is whether they will be jointed by a fourth great power, Japan, and how the pattern of their relationships will be affected, if they are.

I propose to do three things: first of all, to say something about each of these three, or possibly four, great powers; secondly, to advance a few propositions about what seems to me the probable structure of power relationships will be in the area in the 1970s; and thirdly, if there is time, to say something about how Australia is adjusting herself to these changes.

Let me begin with the United States. I think perhaps the principal element in the power structure in the last 20 years in the Pacific has been the position of the United States, militarily the dominant power in the area and directly engaged in containing the Soviet Union and China. No question is more important than how far-reaching are the changes now taking place in American policy in the Pacific.

If we can assume, as I think we can, that the United States will survive as a political society at all in the seventies, then it seems to me that there are certain limitations beyond which the United States cannot go in disengaging from the area. The United States is bound, for example, to remain a force in Asian-Pacific affairs by virtue of her position as a global strategic nuclear power, by virtue of her US-Continental and ocean-based strategic nuclear forces, although in the 1970's her position in this respect will be qualified by Chinese and conceivably by Japanese nuclear power as well as by that of Russia.

The United States will also remain the dominant naval power in the Pacific, although again the position will be qualified in the future in a way that it has not been in the past by a Soviet naval presence and possibly also by a Japanese naval presence. The United States, even if she disengages completely from her commitments on the Asian mainland, will remain geographically a Pacific power by virtue of her position in Guam and Hawaii and probably also because she will remain in the Trust Territory of the Pacific. Nevertheless, within these limitations, it seems to me that the changes in American policy are of a very drastic nature and that they will go further before they come to a stop. I believe it is the case that the new mood of disengagement in the United States is affecting not merely the American presence in this region, it is

affecting the United States all over the world. A couple of years ago, at the time, for example, of Mr. Johnson's March 31, 1968, speech which really ushered in the new course of American policy in the Pacific-at that time it was still possible to argue that after the Americans had withdrawn from Vietnam and other parts of south-east Asia, this would be accompanied by a reinforcement of American positions elsewhere in the world. Some people thought that as the United States withdrew from Asia, she might turn more than she had been in recent years towards Europe. Mr. Walter Lippman, for example, argued that after the United States withdrew from Vietnam and Thailand, they might look around for new bases on the periphery of Asia. Mr. Lippman advocated an American base in Australia as a strategic position on the Asian periphery from which to influence Asian affairs.

It seems to me that now we can say that this is not happening, that the United States' withdrawal from mainland south-east is not being accompanied by any reinforcement of positions elsewhere, but by reduction of commitments in other parts of the world also. She is under pressure to reduce her forces in Europe and she is likely to be withdrawing forces from Korea. Changes have already taken place in her strategic position in Japan. There are signs that the United States is nervous about her commitment to the Philippines. So it seems to me that the new mood of American disengagement is global in its implications and not merely regional, and within the Pacific affects the whole of American commitments in the Pacific and not merely the south-east Asian mainland.

It also seems to me that the changes in American policy affect the ends of American policy and not merely the means. That is why it is wrong to compare the present mood of the American public in its disillusionment with Vietnam with the mood of disillusionment with Asian commitments that followed the Korean War.

In the immediate aftermath of the Korean War, the United States turned away from the policy of containing communism by means of involvement in land wars in Asia, and towards the means of accomplishing this objective by the threat of strategic nuclear action against the centres of communist power; this was the meaning of the famous doctrine of "massive retaliation". At that time there was a change really only of the means and there was not a questioning of the ends also. But it seems to me that in the present mood of the American public and Congress there is a questioning not merely of the means but also of the fundamental objectives that have governed American foreign policy since the time of the Truman Doctrine. There are two objectives in particular that I would mention; first of all, resistance to aggression—I think American leaders have seen America's role in the world as that of being a champion of the norms of the UN Charter-a big power concerned to resist aggression wherever it broke out, anywhere in the world. I think there has been another end that the American leaders have perceived another objective that they have defined for their country, and that is the containment of communism all around the world

It seems to me that the United States is losing faith in those objectives of resisting aggression and containing communism. I do not wish to say whether this change is for better or for worse, I am simply trying to note that it has taken place. The United States remains concerned with the global balance of power; the United States is still concerned with her relations with other great powers such

as China and the Soviet Union, and for this reason it remains interested in the Asian theatre. But she does not have the concern she once had, at least I do not think so, with upholding the norms of the UN Charter about aggression, and with containing communism.

It seems to me that the Cambodian intervention of earlier this year, which one might have thought was a reversal of this policy of disengagement, has only underlined the truth of what I have just said. That is to say that whatever the objective of the Cambodian intervention was, the result of it was to tie President Nixon's hands more than they were tied before. It is now more clear than it was before the Cambodian intervention within what close limits the American public will tolerate a re-escalation of the war.

Let me move on to the Soviet Union.

Russia, of course, historically has been a European power and a land power, but the notable theme of the last couple of years has been the way in which the Soviet Union is moving into the Asian and Pacific area, not only by virtue of her concern with her border conflict with China, but also because of the penetration of the Indian Ocean area by Soviet raval vessels, the attempts by the Soviet Union to find bases around the Indian Ocean and her success in finding some facilities. We have also had a Soviet diplomatic and trading offensive in south-east Asia. The question I think which naturally arises is whether the Soviet Union is moving into a power vacuum in the area created by the withdrawal of the British and the disengagement of the United States.

It seems to me that there are certain limits affecting the extent to which the Soviet Union can really achieve anything in this area. For one thing, the reasons that have caused the Americans and the British to move in the direction of disengagement in the Pacific area apply to Soviet policy also. They apply in this sense, that as the Americans have concluded that active military intervention in the internal affairs of south-east Asian countries is unprofitable or can bring results only at a cost that outweighs the gain—then it seems to me that that is going to be true for the Soviet Union just as much as it has been true for the Americans and the British. It also seems to be the case that the Russians are yet very far from having the military capabilities in the area that the Americans have had or even that the British have had in recent years. The Russians do not have the aircraft carriers; they do not have the means of providing land-based air cover for their forces; they do not yet have any substantial amphibious marine force. So there are these limitations so far on their actual physical capabilities.

The main question, I think, that arises about the Russian penetration of the Indian Ocean and the south-east Asian area is how this affects the interests of the countries concerned. The traditional Australian attitude, until a year or so ago, I think, has always been to see Australia's interest as lying in keeping the United States presence in the area and in excluding the influence of any of the communist powers. There are signs, I think, that the Australian assessment in this respect is changing. In August last year, the then Australian Minister for External Affairs, Mr. Gordon Freeth, made a speech in which he appeared to welcome the presence of the Soviet Union in the Asian and Pacific area. He said that Australians should not necessarily regard the new Russian naval presence as hostile to Australian interests. He said that after all the Soviet Union

was there partly in order to contain China, and he indicated that Australia and the Soviet Union might have some common interests vis-a-vis China in the area.

I should add that as a consequence of making that speech Mr. Freeth was disavowed by the Australian government, and in the following Australian election Mr. Freeth lost his seat. That testifies to the continuing strength in Australian political circles of the older, the cold war view of Asian international politics, the notion that the world is divided into two camps and that distinctions cannot be drawn between Russia and China. Nevertheless, in my view, Mr. Freeth was not only correct but also he was stating the line which is likely to become the Australian official attitude.

I believe that this new Australian attitude towards the Soviet Union will be reflected in the policies of other middle and small powers in the Asian and Pacific area. Also I think it is an attitude that concerns not only Australia's relations with the Soviet Union, but also can be generalized to our relations with all the great powers in the area. That is to say, it seems to me that Australia will see some value in the policies of each of the four major powers in so far as each provides a check to the activities of the others. In other words, it seems to me that Australia. like other middle and small powers in the area, is developing an interest in the existence of an equilibrium between the United States, the Soviet Union, China and Japan, that Australia will not want any one of those countries to be wholly predominant, and that Australia will recognize some interest in the situation where each of these countries provides a checkmate to the others.

Now, what about China? Ten years ago I think it was the fashion to regard China as being the great problem of international relations in the second half of the twentieth century. I think in the last few years we have rather moved away from that assumption. The cultural revolution has taught us that the government of China is not necessarily stable, and the economic performance of Japan has so outshone that of China that it has now become more fashionable to say that Japan will be the great political influence in the second half of the twentieth century, rather than China.

I regard this proposition as still uncertain. I think perhaps we have moved too far away from the old assumption that the future will be dominated by China. Effective strategic and diplomatic power is not determined simply by the size of Gross National Product or the rate of economic growth. It is determined also by the proportion of one's resources one decides to devote to strategic and diplomatic ends, and by the resolution or will that one displays in pursuing foreign policy ends. It seems to me that China in these terms is still indisputably a great power in a way in which Japan is not yet a great power.

I do not know what the future direction of Chinese foreign policy will be. I do not know how seriously they will pursue hegemony in South-East Asia after the United States has gone. There are some people who argue that China's interest in South East Asia is chiefly brought about by the American presence and that after the Americans go they will settle down to a more relaxed view. On the other hand, the American withdrawal will create new opportunities for them. It is obvious though that China is already moving away from the diplomatic isolation into which she was drawn by the cultural revolution, and it seems to me very likely that in the course of the 1970s

China will want to re-establish a close working relationship with one or other of the great industrial powers.

I do not mean by that that China will want to get back into the position of dependence on the Soviet Union that she was in in the early years of the communist regime in China, but it seems to me that China will not want to be as totally isolated from all of the other great powers in the world as she was in the course of the 1960s.

What about Japan? Mr. Sato, when he visited the United States in the fall, made a speech in which he said that Japan's future in Asia was to be what he called a new kind of great power, a great power that could be in the front rank of the world councils without being a great military power. Mr. Sato's vision of the future of Japan is that Japan will be in the front rank, but will not acquire the accountrements of a great military power. He seems even to be suggesting that Japan has something to teach the world in this respect, that it may be desirable, from the point of view of the world as a whole, that we move towards a situation where countries can get to the front rank without acquiring nuclear weapons and the other elements of great military power. I must say that I doubt this as a general intellectual proposition. It seems to me that you cannot be a great power without having great military power. I also have my doubts as to whether Mr. Sato's course will be the one that Japan will pursue.

At all events, it seems to me that people who are making foreign policy calculations around the Pacific area will give a great deal of weight to the possibility that Japan will become a great military power as well as being the great economic power she already is. I do not say that this will happen, but I think that people in making their foreign policy calculations will take that into account as a very strong possibility.

It seems to me fairly likely that Japan will move, in the course of the 1970s, into a position of military self-sufficiency, into a position where she can take care of her own defence without relying upon the United States. But there I am talking strictly about the defence of the Japanese home islands. I think it is a much greater step to assume that Japan will, in addition, be prepared to throw her weight around militarily elsewhere in the area. The indications in the Nixon-Sato communique of November, 1969 of Japanese interest in Korea and in Taiwan do indicate that Japan does regard itself as having special security interests in those areas. It is also the case that one can envisage Japanese naval activity directed towards the defence of Japan's trade routes, but I think it is more likely that we will see a movement towards Japanese defence self-sufficiency in relation to the defence of Japan than we that shall see a Japan ready also to be active militarily outside her own boundaries.

So much for saying something about each of the great powers. Now let me go on to put forward, at least as a basis of discussion, some propositions about how it seems to me the pattern of power in the 1970s will be.

My first proposition is that in this triangle created by relations between the United States, the Soviet Union and China, tension is likely to persist on each of the three sides of that triangle—that is to say, we are not likely to see a combination of any two of these great powers against the third. It is notable that each of these three great countries fears a combination against it of the other two. China is afraid that through the SALT conversations between the United States and the Soviet Union there will emerge what

the Chinese call collusion of the Imperialists and the revisionists. The Soviet Union is concerned about the talks that occur from time to time between the United States and China in Warsaw, and sees some sinister design against herself in them. Equally, the United States would not really welcome a restoration of the Sino-Soviet alliance

It seems to me that these three basic tensions in the world are in a perfectly healthy condition, and that no one of these great powers really has any need to fear that the other two will be able to combine against it.

My second proposition is one to which I have already alluded in what I said about the ideas of Australian foreign policy entertained by Mr. Gordon Freeth. This is that the middle and small powers in the Pacific area have an interest in the existence of equilibrium between the great powers, because this is a condition of their own freedom to manoeuvre.

I have said already how I think Australia has such an interest. I believe it could be illustrated also with reference to the policies of Indonesia. Indonesia has aspirations to some sort of hegemony in peninsular Southeast Asia—that is, in the area of Malaysia, Singapore, Indonesia, and the Philippines. The Indonesian Government at present is concentrating on its own economic reconstruction. Nevertheless I believe that there is latent in Indonesian political thinking a desire in some way to assert leadership in that area, and I think it is expressed through their championship of the Association of Southeast Asian Nations which they see primarily as a vehicle for Indonesian leadership.

I am not suggesting that there is anything necessarily unnatural or unwelcome in Indonesian leadership in that area; it rather depends upon what form it takes. But it follows from this Indonesian policy that the Indonesians do not want any one great power from outside that area to move into it and limit their own freedom of action. If countries like Russia, Japan, or China are going to be active in the peninsula of Southeast Asia then the interest of the Indonesians is that they supply a checkmate to each other so that no one of them becomes predominant, and in this I think the Indonesian interest is comparable to the Australian interest.

The third proposition I would put forward is that in the course of the seventies there will grow up a nuclear balance of terror or a nuclear standoff between, on the one hand, China and the United States, and, on the other hand, China and the Soviet Union. It seems to me that after the Chinese demonstrate that they possess an intercontinental missile capability and that they can launch missiles carrying nuclear warheads at the United States and the Soviet Union, there will grow up something of the sort of relationship between China and each of the two super powers as already exists between the super powers themselves.

Many of my American friends tell me that this is wrong. There are many American strategic analysists who consider that the United States will develop an ABM capability that will completely neutralize any Chinese ability to deliver nuclear weapons in the United States. There are others who point out that at present the United States has a disarming capability in relation to China in the sense that it can eliminate Chinese launching sites in a first strike. They believe this will continue to be the case for a long time. I find this argument unconvincing. I believe deterrence is political and psychological, rather than a technological state of affairs, and that the Chinese will be able to

instill sufficient doubts in American and Russian means to create in effect a nuclear checkmate in relation to each of the two super powers.

I do not suggest that the Chinese will use their nuclear weapons, but the possession of them will get them out of the position they have been in ever since the Communist Government came to power, which the United States has been able with impunity to threaten China with a nuclear attack. The United States will no longer be able to do that.

One of the effects of this, no doubt, will be to increase the forces making for nuclear proliferation in the area, and it will strengthen thinking in Japan, and indeed in Australia, in terms of nuclear weapons, and it will help further to undermine the American alliance system in the Pacific, to strengthen doubts about the credibility of American guarantees.

The fourth proposition I would put forward follows from what I have already said, and that is that the American alliance system in Asia and the Pacific continues to decay and will not be replaced by any new collective security arrangement. In fact, I think the likely pattern of power relationships in the Pacific in the seventies will be one of self-reliance on the part of most of the powers in the area.

I do not mean by this that nothing will remain of the American alliance system. I think the ANZUS treaty between Australia, New Zealand and the United States is still a pretty healthy arrangement, and will persist. Something will persist of the American-Phillipines Treaty, and the American-Taiwan arrangements will not disappear overnight. But, I believe that the trend everywhere is towards greater self-reliance. The SEATO treaty will disappear altogether, I imagine. This is an arrangement which is kept alive only by the fact that the American, Australian, and New Zealand forces fighting in Vietnam are there ostensibly in fulfilment of their obligations under the SEATO treaty, and while they are there the SEATO treaty has to be kept alive. After the allied withdrawal has taken place the SEATO treaty can be given a decent burial, and it will come to mean as little to the Americans as it already does to the British, the French and the

Various proposals have been put forward for new collective security arrangements in the Pacific. A few years ago, for example, Mr. Alistair Buchan floated the idea of an alliance between Australia, India and Japan. Mr. Brezhnev put forward his collective security proposal in 1969. President Nixon at one time appeared to be interested in promoting some new alliance in the area of which the United States itself would not directly be a member, and which would be based on the ASPAC organization—the ninemember Asian-Pacific organization.

None of these projected new collective security arrangements really appear to me to be founded upon sufficient community of interests among the proposed members to have any likelihood of getting off the ground. I would say also that the new collective security arrangement that appears to be the most healthy, namely, the idea of a five-power Commonwealth arrangement between the United Kingdom, Australia, New Zealand, Malaysia, and Singapore, to take care of the security of Malaysia and Singapore in the light of the reduction of British forces, seems to me to be essentially a transitional device that will last a few years, and help the Malaysians and Singaporians to adjust themselves to the facts of British withdrawal,

but it would be wrong to see in this new five power arrangement some permanent alliance of the Commonwealth states that would take the place of the former British presence and be a permanent element in the security of the sea.

My fifth and final proposition would be that one of the difficulties that Western powers would have to face in the Pacific area in the seventies will be caused by the tremendous force exerted in the Western world by the doctrine that the rich industrial powers in the world can lead a life of isolated self-enrichment, and need not much concern themselves with the life of the third world. This is a doctrine that you might call the Lin Piao doctrine in reverse. You are familiar with Lin Piao's famous dictum that the countryside of the world must encircle and overcome the cities of the world.

I think that in the Western world we are getting into the reverse form of this doctrine wherein it is being said that the rich industrial countries essentially have the future in their own hands; that they cannot effectively have any policy in the third world, and they must reduce their activity there to a minimum.

There was a dramatic example of this in the recent Duncan Report on the future of the British diplomatic service. The Duncan Report divided the world into what it called the inner circle and the outer circle—the inner circle consisting of the rich industrial countries, and the outer circle comprising the rest. What the Duncan Committee's Report suggested was that British diplomatic missions should be concentrated in the inner circle, where the purpose of British diplomats would be to seel British goods to the rich countries, and in the outer circle British diplomatic establishments should be reduced to skeleton levels.

It seems to me that this is a dangerous doctrine; that the rich part of the world is not going to be able to afford to ignore the poor part of the world; that even though it is wrong to suggest, as some people do, that the Have Not countries are strong enough to gang up on the Have countries and threaten them with some superior combination of power, nevertheless the rich countries are not going to be able to insulate themselves from the turbulence that seems bound to dominate the domestic politics of all the poor countries in the 1970s.

Therefore we in the rich parts of the world have to think of ways of asserting effective influence in that part of the world. If Australia has any contribution to make to the councils of the west, it is probably that Australia is the one country in the rich industrial part of the world that cannot possibly afford to adopt this doctrine of Lin Piao in reverse.

Australia is a country whose influence must be thrown on the side of trying to preserve within the rich western world a continuing concern about the affairs of the Third World.

Let me finally come to my third topic, Australian policy. It might help to state the traditional Australian concern with security in the Pacific area to contrast Australia's policy with that of Canada. There have always seemed to be two fundamental respects in which Australian policy is different from that of Canada, especially as it affects our different attitudes towards the United States.

Canada has a sense that from the American point of view she is indispensable, that American policy is never going to be able to satisfactorily distinguish between the security of the United States and that of Canada. Because Canadians have this feeling that from the American point of view they will never be dispensable, Canada I think enjoys a certain freedom to criticize the United States. Canadians feel that they can cock a snook at the United States and be a thorn in her flesh without this having repercussions upon the willingness of the United States to come to Canada's defence.

This is a feeling that Australians do not have. They are very conscious of the fact that they are ultimately dispensable from the American point of view. They recognize that it was America who saved them from Japan in the second World War. That was because the United States had strategic interests in a base in Australia, which she has no longer.

Underlying all Australian thought with respect to security matters in the Pacific there is this feeling that ultimately the United States could decide to let Australia go and, indeed, the United States does not always support Australian interests. We had a demonstration of that when the United States took the Indonesian rather than the Dutch side in the struggle between Indonesia and Holland over the future of West Irian. That is the chief disappointment which Australia has had in its foreign policy at the hands of the United States.

The second major difference I think between Australia and Canada is that Canada has a great problem of national identity. Canadians, as I understand it, are constantly asking themselves the question who they are. They are constantly in need of demonstrating to themselves and others how they differ from the United States. This appears to me to be something which gives Canadian policymakers an interest, having this psychological origin, in striking attitudes which are different from those of the United States, for their own sake.

This is not an element in Australian policy. Australia is a country which has problems of all sorts, but not that of national identity. Australians are not in any doubt as to who they are or in what respects they differ from Americans. Australian thinking, therefore, does not contain this in-built psychological tendency towards finding ways in which our policy differs from that of the United States.

The manner in which historically we have chiefly sought to solve our security problem has been through the policy that Sir Robert Menzies used to refer to as "reliance on great and powerful friends." It has been recognized that Australia is a weak country in a potentially stronger and hostile environment and cannot ultimately provide for its own security through its own means. She has instead sought to provide for her security by ensuring that Britain and the United States will be there to protect her if she should really need them. In recent years she has sought to cause Britain and the United States to be in this frame of mind by helping them in their policies in South East Asia. So we have had Australian troops in Malaysia, Singapore, Thailand and Vietnam alongside British or American forces.

Disengagement of the Americans and the British has now forced the Australians, I think, to recognize that this policy of what used to be known as forward defence, of having Australian forces in South East Asia alongside British and American forces, is a policy which really has no future.

I think the time is coming when if Australian forces are going to be in South East Asia they will be there on their

contingents.

It seems to me that the trend of Australian policy is going to be away from forward defence. The likely future of Australian military policy is that it will be concentrated on the defence of the Australian continent and New Guinea. We will be increasingly inactive in terms of military intervention or permanent military presences in South East Asian countries.

It also seems that there is going to be increasing questioning in Australia regarding the major premise on which Australian security thinking has rested, namely that we do not provide for our own security but look to the United States or to Britain. It seems to me that self-reliance, which as I have argued is the likely pattern in the area as a whole, is increasingly entering Australian thinking also. Australia will not wish to live outside the ambit of the American alliance but will still be concerned to make the best of American policy. The direction in which Australia will move in the 1970s will be towards developing a more independent defence policy and diplomacy.

The Chairman: Thank you very much, Professor Bull. I am sure all senators will agree that Professor Bull's presentation was a tour de force, as I would confirm that he did not use one note throughout its entirety.

I have one or two comments to make respecting your presentation before the questioning. They relate to the identity of Australians. May I assure you that, speaking from personal and wartime experience which I know is shared by many in this room, we never had any trouble finding the Australians; we knew who they were almost immediately.

I think the way you covered the subject was extremely interesting, particularly the manner in which you outlined the five propositions, which I am sure will stimulate questions.

As I indicated, Senator Laird will commence the questioning and I have notice from Senator Pearson that he wishes to follow.

Before proceeding to that, however, it is my rather pleasant privilege to welcome Senator Casgrain here this afternoon. Although she is not a member of the committee, may I assure her of our sincere welcome; it is very nice to have her with us.

Senator Laird: Professor Bull, it has certainly been enlightening to hear from you on this subject. It has provoked a number of thoughts in my mind and, I am sure, in those of other senators.

Having in mind your observations and those of the chairman with reference to identity, could I ask a rather trite question as a preliminary to another? Is there a feeling of kinship to Canada amongst Australians yet? Does it persist from the days when perhaps we might have been a little bit closer? Is there a feeling of kinship and fellowship with a fellow member of the Commonwealth?

Professor Bull: Yes, I think there is. It always seems to me that the striking thing about this is that, although there is this great similarity between Australia and Canada in terms of their origins and their being sister dominions, being developing countries, being part of the new world, their cultural history being so alike and so on, nevertheless the actual relations between them are really rather minimal; that is to say, we do not really have a lot to do with

own and not as part of large British or American each other, even though we are very like each other, and it is from the likeness rather than from the relationship that this sense of kinship derives.

> Sengtor Laird: This brings me to the question which I suggest is of some importance. I should preface it by pointing out that in this committee, due to the breadth of the topic, we are trying to confine ourselves as much as we can to Canada's trade relations with countries of the Pacific rim. There again, there is the proposition that you have to take into consideration political matters as well. This is why we are so glad to have you here today. Canada already has a certain amount of trade with countries of the Pacific rim. What will be the attitude of Australia if we became more aggressive about endeavouring to work up more trade with those countries?

> The Chairman: Before Professor Bull answers that question, I should like to make it clear to him that I do not believe you wish to convey, Senator Laird, that this committee is concerned exclusively with trade relationships with the Pacific countries.

Senator Laird: Oh no.

The Chairman: It is certainly a large part of our study, but we are extremely interested in the overall strategy of Canada as it relates to the Pacific rim area.

Sengtor Laird: I thought I had made it clear that we are perhaps emphasizing this in our own minds, but not derogating from the proposition that of course political considerations such as have been discussed so ably today are absolutely fundamental to that issue.

Professor Bull: I suppose the answer to your question would be that the Australian reaction would depend upon the directions in which you were being aggressive. It is obvious that Australia and Canada are in some respects competitors in the trade field in the Pacific. We are both suppliers of the same sorts of things. Perhaps we are both aspiring manufacturing countries hoping to make some dent in the markets there, and we are also both important suppliers, particularly to Japan, of raw materials. In both these respects we are potential competitors.

Senator Laird: For example, at the present time we are, as you know, shipping rather extensive amounts of raw materials to Japan. Is there any feeling of resentment in Australia about that move on our part?

Professor Bull: No, none. I think the reason for that is that the Japanese appetite for raw materials is so inexhaustible that it does not yet seem to be reflected in a sense of strong competitive interest between us and Canada. I suppose if there were to be a decline in the Japanese demand we might see our interests clashing more clearly.

Senator Laird: You have covered extensively the change in relationships between powers. Do you consider that the signing of the Soviet-Chinese trade pact has any significance politically?

Professor Bull: I think it does. I think it needs to be seen as one of a number of signs of possible moderation in the Sino-Soviet relationship. I would expect relations between China and the Soviet Union to get somewhat better, although still basically to display this tension which, as I argued, will I think continue to be a theme. Even if there were to be a change of government in Russia or in China, or in both, I do not really see that there could be a restoration of the sort of closeness that existed between the Soviet Union and China in the first decade of the existence of the Chinese Communist government.

Senator Laird: In that same connection, do you consider our recent recognition of China will have any effect tradewise, or are the Chinese simply concerned as bargainers all the time in the matter of trade?

Professor Bull: I would expect that the Canadian recognition of mainland China will have all sorts of important political effects. Indeed, I think it has already had some important political effects. I would be more doubtful though about its effect on the patterns of trade. The Australian case is a good example. I believe that we have been able to sell more wheat than Canada has done to China, even though we do this from the position of not recognizing China politically. I therefore would not myself, if I were in the Canadian position, see the benefits accruing from the recognition of China as being in this field.

Senator Laird: Speaking of that sort of thing, what do you foresee as the ultimate fate of Taiwan, having in mind mainland China's apparent attitude about separate recognition for Taiwan?

Professor Bull: What I see as the desirable outcome of that situation—I do not know how long it will be before it happens—would be the two-China solution; that the government in power in Taiwan will ultimately come to see itself simply as the government of Taiwan; that China will learn to live with the situation for the time being; that ultimately perhaps, in some situation where the ideological barriers between mainland China and Taiwan have disappeared, there might in that context be a re-union, but we are then talking about the quite distant future.

Senator Laird: But will mainland China ever be satisfied until Taiwan is rejoined with mainland China?

Professor Bull: I think that the answer is, No. The Chinese government will not be satisfied until there is a re-union. But this re-union cannot come until such time as the ideological differences between China and Taiwan have disappeared, and that will not be for probably a generation or more.

Senator Laird: Just one final question, and then I will pass it along. With regard to Japan and her potential as a nuclear power, do you have any ideas on whether or not such a thing might be brought about hurriedly? Is it possible for Japan to become a nuclear power in a hurry? I did notice some observation in your article that seems to infer that.

Professor Bull: I believe Japan could become a nuclear power fairly quickly. Moreover, if she did so she would be, unlike any other potential nuclear power at the present time, really a formidable nuclear power, because of the various potential nuclear powers in the world Japan is the only one that has the basis of a first-class missile capability.

I think Mr. Nakasone's allusion in his recent defence statement to the fact that in his opinion a Japanese nuclear capability would be consistent with the Japanese Constitution is something that many observers of the Japanese nuclear situation have taken note of and that even though the direction of his argument was along the lines that Japan did not have intentions of going nuclear

now, it does seem Mr. Nakasone was laying the groundwork for a possible move in that direction.

Senator Pearson: I was just reading your article and I notice that the Chinese, as you say, claim that their weapons are really defensive and not offensive at all.

After the Second World War Russia decided, for her defence, that she had to have a number of buffer states and she seized certain western areas and then the islands on the Pacific, north of Japan. China then came along as a strong Communist nation. They felt it was necessary to have the same idea and therefore they seized in a sense, not openly, but actually in my opinion North Korea and also Tibet. Their infiltration into other areas, such as North Vietnam, Cambodia and Thailand all indicate that they were after the same thing, that is, to have a buffer area and a perimeter as a matter of defence against Russia.

The Russians in turn are building up their fleet in the Indian Ocean or threatening to do this, as a way of putting pressure on China to pull back out of there again. Do you think there is anything to that at all, that is, the Russians putting the pressure on China from the south instead of just from the north?

Professor Bull: I think that is one of the elements in the Russian penetration of southeast Asia. I also think it is an element in the Russian interest in naval bases in the Indian subcontinent. I do not know whether they want to put pressure on China, but maybe it is the element of forestalling possible Chinese expansion in the area. On the other hand, I think it is wrong to say that this is the only purpose of the Soviet policy. I feel the Soviet Union is perhaps ultimately more concerned with this area as part of her global relationship with the United States, as well as with her relationship with China. It seems to me that the Soviet Union is ultimately more concerned about her relationship with the United States than her relationship with any other country, just as this is true on the American side as well.

These two super powers are still ultimately the chief threat to each other, even though each of them now devotes part of its attention to looking at other dangers as well. In this respect the world has changed. Nevertheless, the main element of tension in the world is still the relationship between the two super powers rather than the relationship to any third power.

Senator Pearson: You said the United States is gradually disentangling from southeast Asia and pulling out of there as much as possible and that it eventually intends to pull out altogether. The British have also pulled out of the area to some extent. They do have some interest there, but they are pulling out. Do you think that the effect of the nuclear power which these two super powers have is going to take the place of their fleets and that there will be no need for these fleets scattered around the world and armed forces on the land? Do you feel they have sufficient aggressive power in the nuclear area in order for the United States and Russia to sit in their own domain facing each other through nuclear power rather than having all these other scattered forces?

Mr. Bull: In my opinion that cannot be the case because nuclear weapons can only be used for a limited range of contingencies. I do not believe that any country will use nuclear weapons or can now convincingly threaten to use

nuclear weapons in any contingency other than matters involving the life and death of the nation itself. For diplomatic and political purposes that fall short of that, nuclear weapons simply aren't suitable, therefore global nuclear power cannot take the place of a local military presence.

I think there are some signs in American policy of a greater willingness to rely on nuclear weapons, just as after the Korean War there was a reaction against local land involvement and a turning towards nuclear weapons. There have been some signs of that in American thinking. I think it is an illusion that nuclear weapons can be a substitute for local military presence.

Senator Pearson: I notice that Japan is now deciding to spend some money on defence weapons and there has been a suggestion that they are going to put in about \$5 billion in defence arrangements. Do you think that is just a beginning, that Japan will eventually have to become a big power nation in Asia?

Professor Bull: I do not think it is inevitable that Japan will become a first-class military power, but I think it is sufficiently probable for all the countries in the area to take it in account as a very likely contingency. Even if the Japanese do not increase the present proportion of their gross national product that they devote to defence—I think it is .84 per cent—merely by the virtue of the spectacular expansion of their gross national product the absolute size of their defence budget will continue to expand so they are bound to become more and more militarily strong even if they do not devote a greater proportion of their resources to defence.

The Chairman: I would like to ask a supplementary to Senator Pearson's question about Russia's influence and as you put it, the southern Indian continent. I am interested in Ceylon and the great naval harbour at Trincomalee. In view of the recent election of Madam Bandaranaike to the office of Prime Minister of Ceylon and their history of friendship with both China and Russia do you have any comment as to the present posture of Ceylon, because it seems to me this might be a very critical situation?

Professor Bull: Yes, Ceylon of course does have a policy of trying to keep out of great power struggles. For example, they have been very firm in recent years about not allowing any ships or aircraft bearing nuclear weapons to enter Ceylonese ports. I would imagine that the Soviet Union must be considering Ceylon as one of the more likely places to get naval facilities and I would imagine that is one of the objectives of the Soviet Union. I would consider Ceylon one of the more likely places where the Soviet Union may be able to get naval facilities of some sort. Of course, one has to distinguish between a naval base and merely use of naval facilities. I would think that a Soviet naval base in Ceylon would assume that the Ceylonese have gone a long way further in that direction than they have so far given any sign of going.

The Chairman: In fact, you do not know of any specific negotiations going on with Ceylon?

Professor Bull: No.

The Chairman: Thank you very much.

Senator Grosart: We had a suggestion that our witness seemed to feel that the cultural revolution indicates less rather than more domestic stability in the Chinese govern-

ment. It is the opposite of my assessment. Why do you see that as an indication of less stability in the Chinese domestic ess stability in the Chinese domestic scene?

Professor Bull: Until the time of this Cultural Revolution, observers had assumed that the communist party was firmly in control, that there was not going to be any challenge from another direction. It seemed to me that the Cultural Revolution did upset that presumption. I suppose you might argue that there has been stability demonstrated at a high level in the sense that they have weathered this storm and at least some of the central figures are still in power. Mao Tse-tung is still the central figure, people like Chou En-lai are still in their positions. In this sense I suppose that at a higher level there has been stability demonstrated. Is that the point you had in mind?

Senator Grosart: Yes, that was the point. Particularly in view of the long succession of similar attempts to shake Mao loose from some of his power, he seems to have survived them all and, as a result of each one, obtained a much closer intellectual hold and psychological hold on the Chinese people. Would you say that that would be your assumption?

Professor Bull: Yes, I would agree.

Senator Grosart: You also spoke of dependence on Russian support in the early days of the communist revolution. My feeling here again is rather the opposite, that particularly in view of the fact that in the 1945-49 revolution when Mao took control of China, it was at a time when Russia was still recognizing Chiang Kai-shek, as the Americans were, as the legal government of China. Mao's boast seems to be that he did it himself, with America, with Russia, with Japan, with everyone against him. I would think he has some support for feeling that way—the facts of his rise to power and continuing hold on power?

Professor Bull: Yes, it is clear that the fact that the Chinese communist government did have genuine domestic sources of support provided it with a source of strength from which it could stand up against the Soviet Union. On the other hand, if you look at the first decade of the existence of the communist government in Pekin, this was a period of great technological and economic dependence on the Soviet Union. It was a period when the Russians were willing to give the Chinese aid in this field and when the Chinese were willing to accept it. It was also, I think, a period of Chinese dependence upon the Soviet Union in the security field. The Chinese then felt that they had the Russians standing behind them, and this gave them a source of strength that they lost in the course of the 1960s, when it became doubtful how far the Soviet Union was prepared to go in backing up China. For example, in the period of the Vietnam conflict, 1965 to 1968 especially, the fact that the Americans by that time could calculate that they could conceivably get in conflict with China without this necessarily involving the Soviet Union, must have given strength to the American bargaining position in relation to China.

Senator Grosart: What has been going on at Warsaw and what is likely to come of it?

Professor Bull: The Warsaw conversations have not taken place for some months. I would not expect anything very dramatic to come out of that, except on the rather narrow fronts of increased exchange of personnel, creating conditions where Americans can visit China and Chinese can

visit America; possibly some further relaxation of the strategic embargo on trade—things of this kind coming out of it. I would not anticipate much progress on the basic issue of Taiwan. It is a change in United States policy on Taiwan that the Chinese most want to get out of the United States. I would not expect that.

Senator Grosart: How strong is the moral obligation on the United States to maintain the independence of Taiwan? President Nixon's statement, as I recall it, said "we will honour our treaties" and it seemed obviously he was thinking mainly of Taiwan. Are they committed to this forever?

Professor Bull: No. This of course is a problem that is coming up even more dramatically and urgently in South Vietnam. If for some years the United States, for whatever reasons, has pursued a policy of saying to a country-in this case, Taiwan—that it can rely upon the United States, that the United States is there to protect it, that there is a treaty obligation, then it is encouraging the people in that country to throw in their lot with the United States, to take this course. I think it is not reasonable for a country, overnight, suddenly, to reverse that. This is also the problem which the United States is facing in South Vietnam. The United States has been saying to the Saigon government that it will defend them. It has put half a million troops in there to fill out, to give meaning, to that declaration. As a consequence of this, people in Saigon have thrown in their lot with the United States at a time when they could have done something different, when they had other choices. It does seem to me that this imposes an obligation on the United States not to change their policy too drastically, not to desert these people without there being some guarantee of their having a future, or without there being some possibility of their being able to make an adjustment to the change.

Senator Grosart: Could you venture a guess as to the result of a plebiscite in Taiwan where the vote was restricted to the Taiwanese, that is, indigenous Taiwanese?

Professor Bull: What would the subject of the plebiscite be?

Senator Grosart: I would say independence, rejoining Japan, or rejoining China.

Professor Bull: From what experts tell me, I would imagine that independence would be the most popular of those choices

Senator Grosart: How significant in current politics is the 99-year lease on the New Territories in Hong Kong, in the Pacific rim? It is up, I think, in 1999.

Professor Bull: Yes.

Senator Grosart: That is not very far away.

Professor Bull: It is significant to the extent that it creates the feeling that the British presence cannot be a permanent one and there is a feeling that the New Territories must go when that lease expires. There is the assumption that even though—the remainder of the colony, of course, is not bound by that treaty...

Senator Grosart: No.

Professor Bull: ... the British would be on firm legal ground if they tried to stay, that is not really feasible.

Senator Grosart: There is not much territory left—four square miles.

Professor Bull: So its significance would be that it underlines something that should not need underlining, anyway, namely, that in the second half of the twentieth century you cannot expect to maintain a colonial regime, particularly one right next door to one of the biggest and most vociferously anti-colonial powers in the world. Yet the remarkable thing seems to be that China does not want to remove Britain now. The troubles of a few years ago led many people to think that perhaps the mainland Chinese government was trying to ease the British out of Hong Kong. I think the correct reading of the situation is now that the troubles that occurred in Hong Kong and in Macao during the Cultural Revolution were the consequence of local activist groups and did not reflect any calculated policy on the part of Peking to ease the British out. So my understanding would be that there is no pressure on Britain to go and this very special arrangement in Hong Kong is likely to persist for some years yet.

Senator Grosart: What about the south Siberian coast? It was China's until about 1900 when the Russians took it over by treaty from the old emperor, or actually from the old dowager empress. Are they not going to insist on straightening out that line across there?

Professor Bull: I do not see how they can. It does not really seem to me that China is in any position to put forward demands for radical revision of the Sino-Soviet frontier; not of that sort. It does not seem to me that the Chinese would be so unrealistic that they would expect a country like the Soviet Union to make changes of that nature.

Senator Grosart: Except that it is really part of Manchuria. I have been in that area and I have always wondered why the Chinese have not made any noises at all. But, at any rate, you think it is not an issue.

Professor Bull: No.

Senator Grosart: Why did Japan sign the non-proliferation treaty? It seemed to me as though they did not have to say yes or no.

Professor Bull: I think fundamentally the Japanese still want to behave as a respectable member of international society.

Senator Grosart: Does that mean that the rest of the big powers are not respectable members?

Professor Bull: The Japanese are still very conscious of the fact that they are a country defeated in the last war and seen by many people as responsible for it. They still feel that they are somewhat in bad odour internationally and they have a problem in having themselves regarded as a respectable power. They are aware that as they become economically more impressive people in other countries may become anxious about them. Therefore, it is important to them, I think, to demonstrate in as many ways as they can that they are still respectable people. One way of making themselves respectable in the world is by signing an instrument such as the non-proliferation treaty. I think that if they had not signed the treaty that would have been something which would have produced some sharp reactions elsewhere in the world. It would have increased American anxieties; and it would have had an effect in

India and in Southeast Asia. I think they calculated correctly that, in terms of its diplomatic impact on countries they want to be friendly with, signing the non-proliferation treaty was in their interests.

Senator Grosart: I think you said that the Chinese were inviting Japanese participation in the development of Manchuria, Did I understand you correctly?

Professor Bull: I did not say that; no.

The Chairman: It is in the article, I think, Senator Grosart, and it is Siberia, I think.

Senator Grosart: Oh, it is in Siberia. It is the Soviets who are inviting the participation.

Professor Bull: The co-operation is between the Soviet Union and Japan.

Senator Grosart: I am sorry. I misunderstood. But that seems interesting. What kind of Japanese support would they be getting?

Professor Bull: The Russians are interested in Japanese investment in Siberia.

Senator Grosart: And this would mean Japanese development of the area.

Professor Bull: Yes. I believe that nothing concrete has yet emerged from it, but there have been a lot of Japanese missions in Soviet Siberia, spying out the ground and making and developing proposals.

Senator Grosart: This would be the whole of Siberia; not just coastal Siberia?

Professor Bull: I think it is the whole of Siberia.

The Chairman: That is my understanding as well, Senator Grosart. There have been exchanges of technological information and expertise and so on.

Senator Carter: I should like to come back to your supplementary question, Mr. Chairman, when you were talking about the port in Ceylon. I would like to ask Professor Bull if it is a fact that recently there was an agreement worked out between the government of India and Soviet Russia for a port on the coast of India?

Professor Bull: No, I believe that is actually inaccurate. It has been said by a number of people, but it is inaccurate. There have been Soviet naval visits to India and inspections of ports, particularly Visakapatnam, by Soviet naval personnel. And there have been a lot of rumours about an agreement between the Soviet Union and India for a naval base. But there is no clear evidence that this has taken place. It is possible that the Soviet Union has discussed with the Indian government the use of shore facilities in various parts of India, but this is something that the Indian government makes available to a number of countries and it does not really represent any new departure.

Senator Carter: On reading your article about Southeast Asia and Asia in the seventies, I note that at the bottom of page 53 and at the top of page 54 you talk about the decline of the UN and the decline of international communism. I was not aware that there was any decline in international communism, and I wonder if you would elaborate on that. How do you arrive at that conclusion?

Professor Bull: Well, it seemed to me that if you looked at the decade of the 1950s and compared it with the present time you would see that at that time there appeared to be throughout the world an international communist movement which displayed solidarity in the sense that the communist line in one country was the same as the communist lines in other countries. All of these lines were consistent with the policy of the Soviet Union.

Senator Carter: You are talking about the communist international?

Professor Bull: Not merely that; not merely the unity among the communist parties of the world as parts of the international, but also the unity displayed between communist governments. And it obviously seemed to me that this has fundamentally changed. Now a country's membership or non-membership in the communist world is not a necessary guide to the direction of its foreign policy. If you take the difference between the Soviet Union and China and Poland and Rumania, these differences in foreign policy are just as remarkable as the differences between the United States and Canada, Taiwan and Egypt. It seems to me that there is such an enormous variety in the directions of foreign policy within the communist countries that one cannot any longer talk about an international communist movement.

Senator Carter: I may have misunderstood you. I was thinking more of communist influence. Would you not say that communist influence in India and Africa today is greater than it was 10 or 20 years ago?

Professor Bull: I think that is correct, although the communist influence in India is no longer a single force. The position is that there is a tremendous splintering of different sorts of Marxist parties inside India. In many cases they are their own most bitter antagonists. The more important of these Marxist groups are, of course, under the influence of China, and the influence of Russian sponsored communist groups in India seems to be on the decline.

Senator Carter: I would like now to go on to something else. What do you think might be the effect of Chinese nuclear capabilities on the smaller countries of Asia? You say in your article that China still pursues her global objectives for communism. Do you think that having a nuclear capability will be of benefit in that respect? Will they use this to attain their objectives among the smaller countries of Asia?

Professor Bull: I think the Chinese nuclear weapon will affect countries like, for example, Burma or Loas or Ceylon or Pakistan in this way—not that they would be afraid that China will use nuclear weapons against them, but rather that they will now perceive China more than they already do as a great military power in the world. They will see the Chinese nuclear explosion as one of the symbols of China's status in the world and in that sense it will underline their sense of China as an important force.

The second way in which it might affect them is this; that to the extent that the Chinese nuclear stalemate in relation to the United States and the Soviet Union makes China more confident of her own security, it can provide conditions in which China can be more expansionist, if she wants to be, not using nuclear weapons as the vehicle of her expansion, but by using subversion and ideological

penetration. It will put her into a position of greater confidence about her security in which she can, if she wants to, expand locally in these ways.

Senator Carter: You spoke about the new Nixon Doctrine which you spelled out very clearly in your article at the bottom of page 56.

"The United States will keep all its Treaty commitments. We shall provide a shield if a nuclear power threatens the freedom of a nation allied with us, or of a nation whose survival we consider vital to our security and the security of the region as a whole. In cases involving other types of aggression we shall furnish military and economic assistance when requested and as appropriate. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defence".

That is as recent as last February, and it still binds the United States policy very closely to that region of Asia particularly.

Now, I was reading the other day an article by C.L. Sulzberger in which he refers to a secret treaty between the United States and Chiang Kai Shek which goes back 21 years and which binds, apparently, Chiang not to invade mainland China without American permission, but at the same time it pledged that no substantial reduction would be made in American military forces stationed in Okinawa without first consulting Chiang. Is not that another way of saying that it is binding Tokyo as well?

Professor Bull: I am sorry, what was that last point again?

Senator Carter: Well, Okinawa is the principal geographical bone of contention, is it not, between Washington and Tokyo, and so by tying up a treaty with Chiang and tying Okinawa in, they are also tying in Japan.

Professor Bull: I have not seen that article, but if that is correct, it is certainly an important limitation on American policy.

Senator Grosart: That was at the time of the Korean War and I think it referred only to the Korean War and its termination.

Senator Carter: Do you think that Nixon is now giving a hint to Japan that they must be prepared to make greater efforts in their own defence?

Professor Bull: Do I think that the United States is making greater efforts?

Senator Carter: No, giving a hint to Japan to make greater efforts in her own defence and in the defence of that region of Asia.

Professor Bull: I think that is the current trend of American policy—that the United States would like Japan to assume more responsibility for her own defence, and presumably this was the meaning of the references in the Nixon-Sato communique to Japan's interests in Korea and Taiwan.

Senator Carter: Do you think this big economic expansion and the tremendous economic growth of Japan will result in a corresponding resurgence of militarism?

Professor Bull: I do not think that follows automatically. There are people like Mr. Sato himself who tried to distinguish between the two or place a question mark against

the notion that one must lead to the other. On the other hand there has been a resurgence of nationalist feeling in Japan and it is the case that defence thinking is becoming more and more prominent. Defence has become as respectable subject. It is possible now for people like Mr. Nakasohe to make the statement that nuclear weapons are consistent with the constitution. It seems to me that in the light of history this is what we must expect, that Japan will be willing and will become more willing to go into the military field than she has been.

Senator Carter: Is that likely to have much influence on Australian policy?

Professor Bull: I think it will have a very big influence on Australian policy. I think, of course, that Australians look at Japan in somewhat ambivalent terms. On the one hand they see the possibility that Japan's growing power will lead her to play a constructive role in the area, and they see Japan as one of the countries that they can co-operate with and can lean on in order to diminish some of their anxieties about other countries. On the other hand, if Japan were to acquire a nuclear weapon and if she were to move at the same time quite outside the orbit of the American alliance, I think this would create some anxiety in Australia and would lead to some sort of Australian counter-moves.

The Chairman: I have a supplementary question to that. Would you care to speculate as to whether or not Japan will acquire a nuclear capacity, and if your answer is in the affirmative, how soon?

Professor Bull: I do not like speculating about this partly because I am afraid of self-fulfilling prophecies. I regard it as irresponsible to say, as some people do say, that they think it is inevitable that Japan will acquire nuclear weapons. I think if one goes around saying that one puts people in the frame of mind where it becomes more likely. All I would say is that I think there is a certain likelihood of it and that people in making their calculations will attach importance to that possibility.

Senator Carter: You spoke about this tension between the United States, China and the USSR and the triangle of forces there and the forces being in equilibrium, which is a healthy condition for the world and a particularly healthy condition for the smaller countries of Asia. Do you foresee any possibility of things happening that would upset that equilibrium in the near future or in the not too distant future?

Professor Bull: I can see all sorts of changes that can take place in the equilibrium. I can see that any two of those countries can draw a little closer or a little farther apart. There does seem to be some improvement, for example, in the relations between the United States and China at the present time—at least to the extent that the obstacles on the American side to rapprochement with China have largely disappeared. There is no longer a powerful group inside the United States placing obstacles in the way of an American movement towards rapprochement with China. There has been some improvement in the relations between the Soviet Union and China. The hostility over the border of a year or so ago has declined. There has been a decline, I think, recently in the American-Soviet relations but it has been a decline from a fairly high point. There is now reasonably firm Soviet-American détente. There is a rather firm Soviet-American understanding about certain basic common interests in the field of arms

control, but from that point, chiefly because of the Middle Eastern crisis, there has been a decline.

So, I would see all these movements, but what I do not see is any justification for the nightmare picture one sees in the Chinese press and, indeed, sometimes in the Russian press about a combination of two of these great powers against a third one. I do not see any likelihood of a complete rapprochement between any two of these powers.

Senator Carter: Could not that equilibrium be upset, say, by events in the Middle East?

Professor Bull: Now I think you are talking about upset of the equilibrium in a rather different sense—that is to say, not a lessening of tension but an eruption of tension into actual hostilities. I think this is a possibility that is present there all the time. No doubt the Middle East situation is the element of the Soviet-American relationship that is most friction-producing at the present.

Senator Casgrain: I know that time is getting on, but I would like to have a clarification, monsieur. In your remarks at one time you stated that to be a great power you have to be a military power. As far as I know, the economic power of Japan is already very great, and Germany is practically dominating Europe, so I did not know exactly what you meant.

Professor Bull: I am tempted to define a great power in the way in which it was defined by Leopold von Ranke in his famous essay on great powers, in which he said that a great power is a country which can maintain its security against any other single power, without allies. In that sense, it seems to me that America, Russia and China are obviously great powers now. They each provide for their security and conceive that they can stand up to any other single power, without allies.

That is not the case with Japan yet, despite her great economic performance. It seems to me that Japan's economic performance has brought her political and diplomatic status, but it is still the case that there are certain sorts of decisions which she cannot influence because she does not have great military power. Indeed, it seems to me that the world's readiness to treat Japan as a major political force partly reflects people's calculations that Japan could quickly convert her economic potential into military power. People remember Japan's military prowess in the last war. People are aware of the speed with which Japan could acquire a navy, the speed with which she could acquire a nuclear missile force; and it is this feeling of Japan's potential military power which partly explains the diplomatic status we are already prepared to accord her.

Senator Casgrain: Concerning Taiwan, do you think the disappearance of Chiang Kai-shek would not settle the problem more quickly than seems possible at the moment?

Professor Bull: I do not know specifically about the disappearance of General Chiang himself, but I think a change in that government is obviously an essential condition of some progress towards an ultimate solution of the problem.

Senator Casgrain: And then, "To be respectable you have to have armaments."?

Professor Bull: I have not quite got the point of that question.

Senator Casgrain: I know I have an opinion on that point, but you said that respectability is acquired with armaments, and that Japan would be more respectable if it had more armaments. That confused me a little.

Professor Bull: I think that diplomatic and political status, in the sense in which I was talking about this, does require military power. Of course, you can be respectable in all sorts of other ways without having military power. Perhaps one of the problems the Japanese face in re-entering the political stage is to acquire this other sort of moral respectability, to ease themselves into a position of greater political prominence without so alarming people as to antagonize them.

The Chairman: What was the date of this definition as to a great power?

Professor Bull: I cannot recall the precise date of Ranke's essay, but it was in the 1830s. I think the implication of your question is that perhaps this is a little out of date, that there are other ways of defining a great power at the present time.

The Chairman: Well, one would hope that by 1970 perhaps there would be other definitions that might be available, but in the context of your presentation I am quite sure your reference was accurate. However, one would have to conclude that there is a difference between whatever date this definition was made and 1970.

Senator Grosart: I would like to ask a question about external aid. I take it that Japan—which is up to 1 per cent, I believe, of GNP—Australia and New Zealand are the three donor countries on the Pacific rim. Are there any others?

Professor Bull: Well, there are other countries that are donors in a slight sense.

Senator Grosart: I mean countries that are on the Rim, as we define it.

Professor Bull: You do not include Canada?

Senator Grosart: No, I am just saying of the countries on the Rim—that is, the interchange of external aid within the

Professor Bull: They would be the only important countries

Mr. Peter Dobell, Parliamentary Centre for Foreign Affairs and Foreign Trade: Taiwan?

Senator Grosart: No, that is a recipient country.

Mr. Dobell: There is a big program in Africa.

Professor Bull: I do not know how you define a donor country. For instance, India is a donor country, but you mean a net donor country?

Sengtor Grosart: Yes, a net donor country.

Professor Bull: I do not know whether Taiwan is a net donor country or not.

Senator Grosart: It could not be, any more than Canada could, because Canada, by the OECD definition, is probably the developing country of all time, because the OECD definition includes the public and private sector in the transfer of resources. How important is the Japanese and

Australian effort in that area? First of all, to what countries is it directed?

Professor Bull: As regards the Australian effort, the overwhelming bulk of the Australian effort goes into New Guinea. Among the rest of it the largest single recipient country is Indonesia, but India and Pakistan also get a good deal. In terms of the overall quantity of foreign aid in the world, the Australian contribution must be very small.

Senator Grosart: What percentage of GNP is it?

Professor Bull: It is well under 1 per cent.

The Chairman: This would make you relatively high in GNP.

Professor Bull: Yes, Australia is one of the highest countries, but this partly reflects the circumstance that Australia has a large colonial dependency, and most of the effort goes into that.

Senator Grosart: I believe the Australian aid is completely untied.

Professor Bull: That is correct.

Senator Grosart: As opposed to Canadian aid which is very largely tied. Who are the recipient countries of the Japanese aid?

Professor Bull: I cannot answer that question. I am not clear on that.

Senator Grosart: In general, is it global or is it directed only to the \dots

Professor Bull: I understand it is global. This, of course, reflects a doctrine that you hear increasingly from the Japanese, that Japan is not simply an Asian power but a world power. I think they are trying to exert influence all around the globe, and not only in that region.

Senator Grosart: What is the status of the Mekong River development?

Professor Bull: As I understand it, it is still there.

Senator Grosart: Perhaps I can narrow my question by saying that my understanding is that a lot of money has been poured into it, and there are eight or nine important dams on tributaries of the Mekong if not on the Mekong itself. This is provided by an international consortium through the World Bank, I think. How big an influence can this be for stability in the area?

Professor Bull: I am skeptical about the importance of projects like that in terms of their effects on political stability. I mean that for one thing I do not think that economic development is a source of political stability at all. I think, on the contrary, economic development is a source of instability in most of these countries, and whatever the reason for having the development it is not to promote political stability. Economic development creates social dislocation. It turns societies upside down. Out of this social dislocation there derives political discontent. Whatever the rationale of development aid would be, it would not be that it produces political stability.

Senator Grosart: Is not that rather contrary to what we hear from the OECD and the donor countries?

Professor Bull: I think it is. I think the proponents of development aid are finding difficulty in discovering con-

vincing rationale for development aid. I am not trying to say I am against development aid, but to me it is not clear just why people are in favour of it. I am inclined to think that the case for international development aid in terms of its effect on political stability and order is probably to be made out more in the following terms, that it is in the activity of co-operating in the international development business that we make the ultimate construction of some sort of world community more likely, but it is not the development that flows from the aid that produces stability; it is the co-operation produced in trying to bring the development about.

Senator Grosart: Is not an important element the transfer of resources—the long run idea perhaps of some kind of redistribution of resources around the world?

Professor Bull: I think that the idea of redistributing resources is a sound one and an important one, but it does not follow that doing it is promoting political stability in countries.

Senator Pearson: Is Japan interested in developing the resources of Australia at all?

Professor Bull: Very much so.

Senator Pearson: Very much so?

Professor Bull: Yes.

Senator Pearson: Just in money or in technical assistance?

Professor Bull: Well, so far the Japanese impact has been primarily as a purchaser of raw materials, and also as an investor in the extraction business. I believe the Japanese would like to go further in this. They would like to become active in Australia. They would like to send their own technologists into Australia and take some sort of lead in the development of Australian industry. So far they have not done this on the scale that they would like.

Senator Pearson: What is the size of immigration into Australia now? How many immigrants do you receive in a year?

Professor Bull: In recent years it has averaged 150.000-200.000.

The Chairman: That is net.

Professor Bull: Yes, net.

Senator Pearson: Mostly from where?

Professor Bull: Overwhelmingly they are from Europe, with a trickle also from North America, and we also have now . . .

Senator Pearson: Do you have any from Indonesia?

Professor Bull: A few from Indonesia. We now have roughly three thousand non-European immigrants a year.

Senator Casgrain: Have you any restrictions on coloured immigration?

Professor Bull: Well, the position is that formally the basis of Australian immigration policy is rather like the Canadian policy. That is to say, we accept people whom we think can be integrated into the Australian community, and we are looking for people with skills. There is no longer any

such thing as what used to be called the White Australia policy. But, on the other hand, our policy discriminates in favour of Europeans, and against non-Europeans, to the extent that we, like Canada, are one of the few countries in the world which is actively trying to increase its population. We will take almost any European or almost any white North American, but if any non-European person wants to come to Australia he has to demonstrate that he has special skills, and this is a requirement we do not make in other cases. So, there is undoubtedly still a strong element of racial discrimination in Australian immigration policy.

Senator Carter: Dr. Bull, you drew a contrast between Australia and Canada vis-à-vis the U.S.A. Now, Australia and Canada take different positions with respect to recognition of Peking and the admission of China to the United Nations. Would you care to comment on the various arguments of Canada for, and Australia against, recognition of China?

Professor Bull: I have never had any doubt that the Canadian policy is a sound one. That is to say, there is no doubt that countries ought to recognize China, and also favour her admission into the United Nations. I believe that in the long term it is necessary to recognize that China is there, and whatever hopes there might be of inducing a more amenable attitude in Peking towards the rest of the world seem to lie in bringing China into the community of nations, and getting her to behave as a member of the club.

The reason why the Australian Government has been unwilling to do that, I think, reflects the general differences between Canadian and Australian outlooks that I alluded to at the beginning of my remarks. There is our nervousness about doing anything to offend the United States because of our anxieties about our dispensibility from the American point of view, and the lack of attraction in Australia of what you might perhaps rather crudely call anti-American sentiment. That is to say, I think all around the world, including Australia, people do sometimes get a certain Schadenfreude, a certain feeling of guilty joy about the misfortunes of the United States, and this is present in Australia as elsewhere, but it seems to me that it is less prominent in Australia then it is in most places, and particularly less prominent than it is in Canada. We do not get any particular satisfaction out of differing from the United States for its own sake.

So for these two reasons we have followed them in the policy of not recognizing China, I would say against out better judgment. I think most Australian policy-makers recognize the unwisdom of not recognizing China, but they calculate that it is not worth taking issue with the United States over this policy.

Senator Carter: If China is admitted to the United Nations and takes her seat on the Security Council, what result do you see flowing from that?

Professor Bull: I would see two principal results, one of which, I think, is that the United Nations will be increasingly disrupted. I would imagine that when China becomes a member of the Security Council she will be a disruptive element. After all, she does represent a quarter of the world's population, and she has been excluded all these years. She has got a view of the world that is not reflected by any of the present members of the United Nations. She is going to want to propagate that view and she will alter the whole centre of gravity inside the UN debate. She will be a revolutionary force and make it more difficult than it is already to achieve agreement within the Security Council.

I am not for this reason saying it is a bad thing; on the contrary, I am sure it is desirable that China should enter the UN. Ultimately the universality of the United Nations is more important than its effectiveness. It is more important that it should be generally representative than that it should be able to reflect a consensus around any particular policy.

The second result for which I would hope, although it is only a hope, is that the effect of membership in the United Nations would tend to break down China's cultural and intellectual isolation from the rest of the world. There would be some feedback into the Chinese leadership of the contacts that would flow from membership. They would receive a better picture of the true state of international politics, which might gradually make them more amenable in their dealings with other countries.

The Chairman: Thank you very much, Professor Bull; it has been a wonderful afternoon for us all and we are extremely grateful. We hope you found some of our questions as interesting as your presentation.

We wish you good luck and thank you very much for coming on this difficult day.

The committee adjourned.







THIRD SESSION—TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 8

WEDNESDAY, JANUARY 27, 1971

Respecting

THE PACIFIC AREA

(For list of Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman and

The Honourable Senators:

McElman Belisle McLean Cameron Carter McNamara Nichol Choquette Connolly (Ottawa West) O'Leary Croll Pearson Eudes Quart Fergusson Rattenbury Gouin Robichaud Sparrow Haig Lafond Sullivan Laird White Yuzyk—(30) Lang

Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific":

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Wednesday, December 9, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Langlois:

That the name of the Honourable Senator Lafond be substituted for that of the Honourable Senator Hastings on the list of Senators serving on the Standing Senate Committee on Foreign Affairs.

The question being put on the motion, it was—Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Tuesday, January 26, 1971:

With leave of the Senate,

The Honourable Senator Aird moved, seconded by the Honourable Senator Gélinas:

That Rule 76(4) be suspended in relation to the Standing Senate Committee on Foreign Affairs tomorrow, Wednesday, 27th January, 1971, and that the Committee have power to sit while the Senate is sitting on that day.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier Clerk of the Senate

Minutes of Proceedings

Wednesday, January 27, 1971 (10)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2.10 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Belisle, Carter, Fergusson, Haig, Lafond, Laird, Lang, McElman, McNamara, Nichol, Pearson, Quart, Robichaud, Sparrow and Yuzyk. (16)

Present but not of the Committee: The Honourable Senator Casgrain.

In attendance: The Honourable Arthur Laing, Minister of Public Works; and Mr. Bernard Wood, Special Assistant to the Committee.

The following witnesses were heard:

The Honourable Donald S. Macdonald, Minister of National Defence; and

From the Department of National Defence:

Brig. General G. G. Bell, Director General of Plans; and Mr. William Snarr, Director of Policy Guidance, Finance Division.

Agreed—That a document entitled "Additional Notes to Statement by Minister of National Defence—Canadian Defence Interests in the Pacific Region" be printed as Appendix "G" to today's printed proceedings.

Agreed—That additional information, supplied by the Department of Industry, Trade and Commerce, respecting Canada's Trade with the Pacific Area, be identified as Exhibit "Z" and appended to today's proceedings as Appendix "H".

At $3.50\ \text{p.m.}$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, January 27, 1971

The Standing Senate Committee on Foreign Affairs met this day at 2.10 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of two o'clock and I see a quorum present. I would therefore declare the meeting regularly constituted for the transaction of the business before it.

Today we are resuming our hearings on Canadian relations with the countries of the Pacific area.

On behalf of the committee, and certainly on a very personal note, I would like to welcome the Honourable Donald S. Macdonald, Minister of National Defence, who has kindly arranged to come before us for a discussion of Canada's defence interests in the Pacific region. Mr. Macdonald is accompanied by Brigadier-General George Bell, Director General of Plans at Canadian Forces Headquarters, and by Mr. W. B. Snarr, Director of Policy Guidance in the office of the Deputy Minister. I understand that they have some supporting colleagues in the chamber, and perhaps the minister will introduce them in due course. Gentlemen, we very much appreciate your attendance today.

I believe that all members of the committee have now received copies of the very useful background material provided by the department, which I suggest we append to the record of today's meeting. Is that agreed.

Hon. Senators: Agreed.

(See Appendix "G")

The Chairman: Following our usual procedure, I will ask Mr. Macdonald to begin with his introductory statement, after which we will proceed with questioning. Senator Lang has agreed to lead off the first round of questions, after which the Chair will call on each senator as he or she indicates their interest.

Mr. Macdonald, it is a great pleasure to have you with us today.

The Honourable Donald S. Macdonald, Minister of National Defence: Mr. Chairman, ladies and gentlemen, thank you very much for the opportunity to come here and discuss a particular aspect of defence policy, that is to say Canada and our relations with the Pacific.

You have heard from others in recent weeks, including my colleague, the Minister of Industry, Trade and Commerce, and all have pointed out the increasing importance to Canada of the nations of the western Pacific—the so-called Pacific Rim.

All aspects of Canada's foreign policy have been exhaustively studied over the last couple of years in the Government's review of foreign policy. The culmination of this was the White Paper, published in 1970: Foreign Policy for Canadians. As the White Paper brings out, it is the Government's view that strengthened relations with the Pacific will not only serve the broad foreign policy objectives of economic growth, social justice and quality of life but will contribute to the meaning and purpose of Canada's constant evolution as a unique and independent national community in North America.

Canada's defence policy has of course as its objective not only the physical security of our country but also the furtherance of our foreign policy objectives, and in the Pacific Rim countries, as elsewhere, our military activities are directly related to and in support of our foreign policy.

We believe the best way for Canada to enhance both its own aims and at the same time help the Asian countries achieve their goals of increasing their prosperity and raising the standard of living of their people is by increasing the level of trade and investment, and by development aid. The government, therefore, after the careful study and analysis carried out during the foreign policy review has given priority to our economic and political relations with the Pacific countries.

However, the achieving of economic growth and an improvement in the standard of life of the Asian countries of the western Pacific can only be brought about if there is a reasonable measure of peace and security in the area. While the Government feels that although Canada neither can nor should engage in large scale military participation in the western Pacific in the present circumstances, there are various things that the Department of National Defence and the Canadian armed forces can usefully do to make some contribution both to the stability of the area and to the furtherance of our foreign policy objectives.

Therefore though our defence activities in the western Pacific are not extensive, this by no means indicates any lack of interest or concern in the strategic or security situation in that part of the world. What happens there is of concern to us, because Canada is a Pacific country and because events could occur, and have occurred in the past, with the wides ramifications and some, indeed, which could threaten international peace.

We have all seen how the long and protracted war in Vietnam has had very broad repercussions, affecting the Foreign Affairs

relations between and within states, not to mention the intense destruction and disruption within that unhappy country itself. Korea, another divided country, presents another danger spot. If we think back about 20 years tt the Korean war, we can see the dangers inherent in another such outbreak, with its almost inevitable great power involvement. Similarly, an open clash between China and the Soviet Union could have wide and serious impact.

Canada has been involved in military operations in the western Pacific in the past—in World War II and Korea—and we have been on the International Commission for Supervision and Control in Indochina since the mid-1950's, and we certainly cannot be sure of what may arise in the future which could oblige us to make decisions on comparable matters once again.

It is partly with these security interests in mind—in addition to the general expansion of our relations with Pacific countries—that the Government has decided to continue Canada's long-established programs of military collaboration with Australia and New Zealand, possibly to have limited military contacts with other Pacific countries, notably Japan, and to provide some carefully evaluated training assistance to Malaysia and Singapore.

Let me, however, make clear at this point the basic conclusion of our foreign policy review having to do with our defence activities in the western Pacific: as regards our direct military involvement in that area, the Government has concluded that at the present time it is not in the Canadian interest to seek to participate in the various multilateral or bilateral security agreements in the Pacific. We do not, in other words, proposeto enter the ANFUS pact, or SEATO, or the Five Power defence arrangements, or any bilateral alliance, that is to say bilateral military alliance, with a Pacific country. There are things, though, of a military nature which we feel the department and the forces can usefully do and indeed are usefully doing to further our national aims.

As the White Paper notes, the major security problem in the western Pacific has been the search for a more stable and mutually acceptable balance of power and influence among the four major nations of the region: the United States, the Soviet Union, China and Japan. This has resulted from the tremendous changes which have occurred in the quarter-century since the end of World War II.

One of the greatest changes has been the ending of the old Western colonial empires and the virtual withdrawal of the European presence—in the old sense—from the Pacific. The culmination of this process is the marked reduction of the British military deployment in Malaysia and Singapore to a small force in Singapore (plus a small internal security force which will remain in Hong Kong). The Five Power defence arrangements, including Australia, New Fealand, and Britain, along with Malaysia and Singapore, have been the successor of the former Anglo/Malaysian Defence Agreement.

Another major occurrence in the area has been the rise of communism on the mainland of Asia, and most notably in the new cohesion and power the communist Gov-

ernment of China has given to that giant country since 1949.

The extent to which Canada can expect to attain its hopes for economic and other links with Pacific countries will depend in part on the establishment of a climate which minimizes conflict and instability. Though, as I have noted, the Government feels it is not in our country's interests to participate in multilateral or bilateral alliances, what activities of a military nature that we do engage in are directed towards the enhancement of that stability, and the furthering of our ties with the countries of the region.

The situation in Indochina is such that a requirement for Canadian peacekeeping forces or observers could arise at very short notice. In support of Government statements on Canadian participation following a peaceful solution in Vietnam, certain studies have been carried out within the Department of National Defence with a view to analyzing options of involvement based on a set of conditions. The situation in Indochina is continuously monitored, therefore, in order to keep under review indications which might lead to increased participation including the type and scale of such peacekeeping or supervisory operations.

I would add here that I would not underrate, as I am sure you would not, the difficulties which would be involved for either a Canadian or any other peacekeeping force operating in Indochina, particularly given the experience of hostilities in the past several years and the rather difficult terrain of operation. The difficulties involved are not to be underrated and in particular we will have to make very certain as to the circumstances under which we become involved.

It is not possible to say at this time whether or not an international military presence actually will be required in Indochina when the war finally does come to an end, and certainly it is not possible to predict with any accuracy the size or nature of a possible Canadian contribution. Canada is still committed to the principle of peacekeeping and truce supervising, but because of the many difficulties and frustrations we have had, especially in the International Commission for Supervision and Control, though we might well feel a certain obligation to participate in a new peacekeeping operation in Indochina, we would insist on much more satisfactory terms of reference than in the past.

I understand that my colleague, the Minister of Fisheries and Forestry, will be appearing before you himself and therefore I do not want to pursue here the matter of the support we can provide off the west coast save to say that we have had talks with officials of that department and have offered our services should these be deemed helpful in any way. No agreement has been reached as a result of these discussions, but Fisheries have indicated that air surveillance or reconnaissance was the area in which the Department of National Defence could provide the maximum assistance.

In conclusion, let me sum up by recapitulating very briefly the main points I have tried to make today. The western Pacific is a part of the world of increasing interest to Canada and we will be attempting to expand our contacts with the countries of that region. Though our interests there will be primarily economic, commercial and political, we are at the same time extremely interested in the security situation, realizing that our foreign policy aims can best be attained in a climate of stability and progress in the Pacific countries. Though our military involvement in the western Pacific is limited, and will remain so as we see things at the present time, there are things which I believe the Department of National Defence and the Canadian Armed Forces can usefully do in the furtherance of our national objectives, and I have tried to outline these for you.

I hope the survey I have given will help you in understanding the problems of "Canada and the Pacific", and in appreciating the useful part in this which the Department and the Forces are playing, and can play in the future.

I hope that this particular survey will be helpful and I welcome again this opportunity to appear and talk about these matters of mutual interest.

I would like to draw your attention to a document entitled the "Additional Notes to Statement by the Minister of National Defence" which I gather was circulated, Mr. Chairman, to the members of the committee yesterday evening. On page 3 of the document, in fourth line from the top, there is a sentence which reads, "The Commission in Cambodia was withdrawn in December, 1969...". I should like to make a technical correction there. I gather it was not a withdrawal, but it was rather that the commission was adjourned sine die. I would like you to substitute "adjourned sine die", for the word "withdrawn", indicating that at some stage in the future, depending on political agreement, it would be conceivable for the commission to be brought back into that area rather than starting afresh.

Mr. Chairman, as you indicated, I have with me a number of the departmental officials who are particularly associated with the questions we are discussing. There is Brigadier-General Bell, the Director General of Plans, who has already been introduced, Mr. Snarr, the Director of Policy Guidance, and Mr. Burwash, the Assistant Director of Policy Guidance. I think it would be more convenient if they sat here next to me.

The Chairman: Thank you very much Mr. Minister. I think it is fair to say that this committee is particularly grateful to you for not only your own presentation, but for the appearance here today of your colleagues. We understand this to be an indication of your great interest in this presentation.

I should also like to draw to the attention of the committee the presence here today of Mr. Arthur Laing, the Minister of Public Works, who is sitting in the back of the room. Within my experience in the Senate, this is the first time we have had another Minister present at a Senate hearing.

You are most welcome, Mr. Minister. I am not sure whether you are here as a critic or as a supporter.

Hon. Mr. Macdonald: I am just wondering that myself. 23311—24

Senator Robichaud: He would not dare say.

The Chairman: In any event, we will proceed to the questioning.

Senator Lang: Thank you, Mr. Chairman. Firstly, Mr. Minister, in your remarks you stated and indeed emphasized that it is not in the Canadian interest to seek to participate in the various multilateral or bilateral security agreements in the Pacific, i.e. the SEATO five-power arrangement or any bilateral alliance. Could you give me any specific reasons for that conclusion?

Hon. Mr. Macdonald: I think to a degree it involves a conclusion on our part. This of course involves our foreign policy in many respects, in that we just do not have the resources available to engage ourselves fully in all possible areas of endeavour in the international community. It involves a recognition of certain priorities from the Canadian standpoint. The priorities you will recall are those cited in the April 3, 1969 statement by the Government, the first being the maintenance of Canadian sovereignty and, in particular, the internal security of Canada. Secondly, the participation in North American defence, and, thirdly, the participation in the North Atlantic Treaty Organization, by both maritime units and air and land units in Europe, and by peace-keeping endeavours.

The assumption is made that we have certain primary interests to protect and that we have only so many resources to devote to this. We recognize a responsibility for a certain sphere of the international community, but we feel we cannot involve ourselves in certain more remote areas where, as I have said, there could be problems of a very serious security nature arising when we might have to change this decision. At the present time we cannot commit the resources.

In terms of SEATO, for example, I do not feel we can effectively play a role there with the resources we have available, and indeed the interests that the various SEATO countries have, which is natural in order to protect themselves. Just as we lay the emphasis on our role in North America and do not really expect them to play a role in this area with us, so in turn we expect a division of responsibility there.

Senator Lang: Thank you. In the statement enunciating defence priorities you mention that the first one is the defence of our own sovereignty, and I was wondering if you could delineate the emphasis given there to the protection of our sovereignty, such as our own east coast, west coast, the Arctic and perhaps the parellel to the south of us.

Hon. Mr. Macdonald: What you are doing is really responding to conceivable challenges or conveivable security problems that could arise without necessarily indicating that they will arise. One range of the problem arises, of course, in the maritime sense and the challenges to the two Canadian shores, west and east. The challenge is perhaps somewhat more severe in the east because the Soviet undersea forces are inclined to be more heavily concentrated there. There is no question of a choice between the two. It is important in both cases to

play a role in having some control over hostile forces that may be operating in our maritime approaches. I use that in a broader sense than territorial waters. It is important for us to know who is there, and so far as possible to be able to keep track of when they are there, and to co-operate with the other NATO countries in keeping some track of the hostile submarine traffic in the Atlantic Ocean area.

Another area of importance to us and really an area of expanding legal environment has been the recent assumption of responsibility by the Government, as approved by Parliament, for a pollution control zone in the Arctic area. The move, if you like, is considered to be self-defence on the part of the Canadian authorities to protect that particularly delicate ecology, under the control of Canada, from the potential dangers that might be created by the penetration of commercial traffic. What we are doing north of the 60th parellel we are now in the process of doing south of it. I would hope that the Senate would be receiving from the House before long the amendment to the Canadian Shipping Act which would extend the pollution control jurisdiction under that statute in such a way that the sea-borne oil traffic into Canada might be put under stricter control. As you know, the Government extended under the Territorial Seas and Fishing Zones Act the Canadian territorial sea from three to twelve miles, and at the same time confirmed the right to create contiguous fishing zones. Just before the turn of the year we created additional fishing zones. These all create problems for Canadian sovereignty-the assumption of sovereignty over the territorial sea, the contiguous fishing zone, and then the general threat that would exist to Canada and to North America from hostile submarine traffic.

In addition, of course, there is the possibility of the surface-borne maritime threat in the north. Also, in addition to the protection of our sovereignty that we exercise in co-operation with the United States authorities, we go beyond our co-operation with them in maintaining aerial surveillance of the north and our northern air space.

These are all areas in which the Department of National Defence operates. They are areas in which the Government has concluded a Canadian military role and presence is required in order to ensure the basic principle that there are certain lands, areas of sea and parts of air space which are ours, and which it is incumbent upon us, for the protection of them for the assurance of our sovereign rights, that we should be able to patrol.

Senator Lang: Can you say to this committee, Mr. Minister, whether there is any evidence of hostile submarine traffic on the Pacific coast?

Hon. Mr. Macdonald: Yes, indeed I can. I think I can say without breaching security that there has been a recognized submarine traffic there for a number of years, although, as I have said, the indications are that it is not as heavily concentrated as it is on the east coast.

Senator Lang: Can that be identified as Russian, or is there evidence of Chinese submarine activity?

Hon. Mr. Macdonald: I think it is fairly clearly identified as that of the Soviet Union. I think I would be correct in saying that the Peoples' Republic of China does not yet have the capability of maintain that kind of submarine presence.

Senator McElman: If I may ask a supplementary, are there any other flags that come under the description of hostile submarine traffic.

Hon. Mr. Macdonald: I would say that there are none other at the moment that are operational there about which we have the same concerns as we do with those of the U.S.S.R.

Senator Lang: You mentioned in your remarks, Mr. Minister, that air surveillance or reconnaissance was the area in which the Department of National Defence could provide the maximum assistance; that is to fisheries. Would that be the limit you envisage of our ability to enforce our sovereignty in those areas?

Hon. Mr. Macdenald: No. It is conceivable that surface units might be used for purposes of demonstrational force. I would be inclined to say, however, that I think the latter is unlikely. What we are really involved in here in lending support to the Department of Fisheries and Forestry is, in the first place identifying foreign fishing fleets which in our judgement are in violation of Canadian fisheries regulations; and not only identifying the fleets but identifying the acts of violation. We would see as a follow up action on that, rather than military, or more correctly naval, units going out to enforce our claim, the enforcement being by diplomatic action, as indeed has occurred a number of times in the not too distant past, when we felt there had been violations of a basic right. But I would emphasize that the surface and, indeed, air capability does exist there, although we have chosen not to take naval response to what we thought was a violation of our sovereignty.

Senator Lang: If I might turn back for a moment to a question I asked a few moments ago, could you in very general terms indicate to the committee the balance of our armed forces, that is combined naval, air and ground forces, east, west, north.

Hon. Mr. Macdonald: Perhaps at this point I might call on General Bell and ask him, if he could, if he would refer to, first the actual disposition of naval units east and west, secondly the long range surveillance aircraft, and thirdly the aircraft disposed for the purpose of North American air defence.

Brigadier General G. G. Bell, Director General of Plans, Department of National Defence: In terms of the naval elements, on the west coast we have the second escort squadron, which is, in fact, four of our destroyers. On the east coast we have in the neighbourhood of 14 actively involved in the Canadian area and the Canada-United States area, and of course supporting our naval activities in the Atlantic.

In terms of the land force elements, our land forces are spread well across the country. In the British Columbia-Alberta area you have a combat group of land forces, plus training areas which serve the total force in the Chilliwack area. In the central part of the Prairies, of course, you have the artillery schools and battalion area in Winnipeg, and as you move across into Ontario there is a combat group in Ontario, a combat group in Quebec, a major land element training centre in the Gagetown area, which is the equivalent of a combat group, being combined training and operating forces.

In terms of air defence forces, there are air defence squadrons located at Comox, British Columbia, North Bay, Bagotville and Chatham, with the Bomarc squadron located in the central area of Quebec and Ontario. Our major air elements are in the central part of the NORAD air defence system, with our responsibilities on east and west coasts carried out by the squadron at Chatham and the squadron at Comox. In the northern area, we have our northern regional headquarters set up at Yellowknife, in which area about 500 people are involved. Of course, below, shall we say, the 55° line we have deployments such as the elements in Edmonton, Cold Lake, and the base at Goose Bay.

Hon. Mr. Macdonald: General, in terms of long-range patrol aircraft, what is the east-west disposition?

General Bell: We have two squadrons of long-range patrol aircraft on the east coast based at Summerside and Greenwood, and one squadron of six Argus aircraft based at Comox, British Columbia.

Hon. Mr. Macdonald: Operationally, in addition to their lateral deployment, so to speak, over sea east and west, both squadrons operate in the far north in protection of Canadian sovereignty up to Alert?

General Bell: Yes, particularly the squadrons from the east coast operate right up into the northern area on a regular monthly program.

Senator Pearson: May I ask a supplementary question. Why is there more concentration on the east coast than there is on the west coast?

Hon. Mr. Macdonald: Perhaps I could deal with that. I think the assumption has been that the principal deployment of the military threat against us over a period of time has been detected on the east rather than on the west coast. Considering that the threat would come from the Soviet Union, the principal deployment of Soviet ships is in two centres in the Western Soviet Union, based on Leningrad and the north fleet base at Murmansk. The principal source of operation, the observed source of operation, has been from these two bases operating, running from the Baltic through into the Atlantic area and the other one operating directly into the Atlantic round the North Cape.

If Maritime senators will forgive me for saying so, I do not think it is that they are particularly interested in the Canadian Maritime provinces. I think it is more likely an interest on the part of the Soviet Union in the heavy concentration of the United States community on the east coast, particularly in the northeast quadrant of the United States. The threatening units being there in greater numbers, naturally defensive units have been deployed to mask them.

The Chairman: Senator Lang, are you satisfied with the answer to your question which concerned the arranging of priorities?

Senaior Lang: Yes.

Fon. Mr. Macdonald: While the dimensions in western Canada very often exceed those of eastern Canada, the western sea coast of Canada is very much shorter than the eastern sea coast. The western sea coastline from the tip of the Alaskan Panhandle down to the American border of the mainland United States is very much shorter in terms of miles that the very extensive sea coast starting from the Maine borderline and running up to the very tip of Alert. We have a longer and more exposed coast on the east than on the west coast. The Americans assume responsability for these parts of their coast in the temperate zone and also in the Alaskan area. In essence we do not have as much area open for attack of the west coast as we have on the east.

The Chairman: Despite the ice cap that comes down the coast of Labrador?

Hon. Mr. Macdonald: In terms of the coastline around the coast of Noava Scotia, Labrador and Newfoundland, without taking into consideration the ice cap, we have a large exposure there. The ice cap, far from being a hindrance can, in effect, be of assistance to nuclear submarines because of difficulty in providing surveillance.

Senator Lang: I am advised that on the west coast we have a maritime defense agreement with the United States called Alcanus. Can you elaborate on the nature of the terms of that agreement?

Hon. Mr. Macdonald: It would be very valuable if General Bell could elaborate on that aspect.

General Bell: In terms of our northern American defence arrangements, we have Alcanus. Its terms are in regard to plans for the defence of the western area of Canada and the United States. In terms of the Maritime forces we have the Canadian-US task force areas which covers the coastline of British Columbia and Alaska and provides for plans and operation agreements in times of emergency. These are excercised regularly in peacetime.

On the east coast we have similar agreements covering Canada in what we call the CANAM area. This is the area for which we are responsible in conjunction with our United States allies. Also it is, in fact, an area which is coincidental with our NATO Commitment. This area, which covers roughly the waters of exclusively Canadian interest—that is those waters including our territorial waters and the waters of our Canadian continental shelf which, as honourable senators, know, runs for 350 miles along the coast of Newfoundland and for 330 miles in Nova Scotia. This is a considerable area of the Atlantic in which we share responsibility. The Alcanus arrangement, should there be hostilities, provides that we share the defence arrangements with the United States and we have operational procedures which we practise in peacetime through exercises.

Hon. Mr. Macdonald: In addition to the maritime cooperation under the Alcanus Agreement is there land co-operation?

General Bell: Under the Alcanus agreement we have basic contingency plans to produce Canadian-US force commitments to deal with any incident that may occur in northwestern Canada or northeastern Canada, and this will involve both land combat group elements and tactical air force groups, both ways. These are excercised regularly over the years. There have been exercises carried out in Whitehorse and around Alaska over the past 15 years.

Senator Lang: The object of these agreements is to deal only with a military crisis. It is not a sovereignty matter for Canada.

General Bell: This is described in the terms of our priorities as in terms of defence of Canada and North America. We treat the North American area, in terms of hostilities, as one single operational zone because of the nature of the hostilities threatened.

Senator Lang: Referring again to this question of our non-alliance with SEATO or other Pacific organizations, is there any significance to the fact that a military attaché or adviser has been appointed to the High Commissioner's office in Canberra?

Hon. Mr. Macdonald: I cannot answer directly. Is there any special event involved?

General Bell: Because of our long standing arrangement with New Zealand and Austral a and Great Britain with our standardization agreements, there are a lot of common interests in terms of doctrine, terminology, techniques, research and development. We have had exchanges of officers in the headquarters over the years, and this is really placing an attaché there or a military adviser to the High Commissioner, which indicates that the level of our exchange of information and co-operation in these various fields is such that our country should be represented there in the same way that Australia maintains an attaché in Washington, as an officer attached to the Office of the High Commissioner.

Senator Lang: Mr. Minister, you referred briefly to a select and somewhat limited program of military assistance to Malaysia and Singapore, which gave us an idea of the extent of this assistance in terms of dollars or in terms of military impact.

Hon. Mr. Macdonald: A description of some of the actual links is set out in the first full paragraph on page 3. It indicates some of the types of material which has been provided in particular to Malaysia since 1966. These details appear in my additional notes, namely, the first full paragraph on page 3.

The Chairman: Do honourable senators have the additional notes?

Hon. Mr. Macdonald: There is reference to four Caribou aircraft including spares. We undertook the training

of air crew and ground crew. In addition we provided 250 light motorcycles; and there have been exchanges of military personnel, particularly military personnel coming to Canadian staff colleges.

Up until the middle of this year the senior Canadian officer, Brigadier Greenaway, was serving as adviser to the Malaysian Chief of Air Staff. At present one Canadian pilot of an original team of five will be remaining in Malaysia until March 1972 in connection with training of crews for Caribou aircraft.

Senator Lang: Is there any way of evaluating the usefulness of this aid.

Hon. Mr. Macdonald: To us?

Senator Lang: To them.

Hon. Mr. Macdonald: It is difficult to say. Given the operating conditions in Malaysia, Caribou aircraft are particularly useful to them and not only in a purely military sense but also in the area of communications, in the sense that military aircraft play a role in Canada, particularly in northern Canada. This particular program would have been useful to Malaysian defence in terms of their internal security and external military operations.

The Chairman: I think also, Mr. Minister, it is a general appreciation that the efforts of Brigadier General Greenaway have been simply first rate.

Hon. Mr. Macdonald: I think one can say with regard to these military assistance programs generally that in the manner your chairman has indicated and also in a broader, fore gn policy sense, they have been of assistance to Canadian diplomacy. This is in the sense that the countries in question have almost without exception been Commonwealth countries and are happy to have a Canadian officer to balance some of the other influences they have had operating in their military establishments in the past.

We have had to solve certain common problems and they have felt that they have been able to take advantage of Canadian assistance in this way, which really complements other assistance they are receiving.

In terms of assistance to us, I guess it did not do us any harm for De Havilland in Toronto to be able to provide four Caribou aircraft. I do not know where the motorcycles were made.

In a less tangible sense it is valuable to us, and this is the reaction I have found on the part of officers who have served in both Ghana and Tanzania. It is good for officers from the developed world, the northern hemisphere, to gain firsthand experience, not only of conditions of physical operation in the southern hemisphere but also, if I were less diplomatic than I am I would have said some experience of the political as well as the physical jungle.

So to some extent it can be said that it has been of assistance to us in that sense and in terms of good relations with friendly Commonwealth countries such as Malaysia or, in the present instance, Ghana. I think it has assisted our diplomatic position.

Senator Fergusson: In the next paragraph there is reference to the fact that for the first time Indonesia is included in the staff-training program. Then you go on to say in the future Canada will continue to concentrate on training assistance in Malaysia and Singapore.

Why if you decided to do it in Indonesia in one year are you not continuing?

Hon. Mr. Macdonald: Well, I would have to go back to the budgetary position that we are in, that internally we have decided that only so much will be provided. I should make it clear that while the personnel are provided from the complement of the Department of National Defence, these programs are actually paid for by the Department of External Affairs. In terms of their budgetary situation they feel that they can allocate only a certain amount to this kind of assistance. It is felt that for it to be meaningful, rather than provide it piecemeal among one or two countries here and there, it is better to concentrate on one or two states. This is very much in the same way as CIDA in turn has made a decision to concentrate on one or two areas of assistance, rather than distribute it in perhaps not too organized a manner piecemeal across the developing world.

Senator Fergusson: It seems to me that when one starts a program, demonstrates that perhaps it will be worth while, then stops it is worse than not doing it all all.

Hon. Mr. Macdonald: Perhaps it is not a very happy collocation of the two thoughts in this paragraph. It is very likely that Indonesian students will come again to the staff-training program. Obviously it does not place a very heavy weight on anyone's resources to train one or two. The implication here is that a very large amount of assistance will be confined to Malaysia and Singapore.

Senator Fergusson: How many do we have this year?

General Bell: Just the one at the Staff College.

The Chairman: I think it is a very interesting point that you raise, Senator Fergusson, in the light of the Prime Minister's recent announcement that \$4.5 million will be provided in aid to Indonesia, which will help to offset the motorcycles.

Hon. Mr. Macdonald: In Indonesia it is a question of islands, and motorcycles are not very good to cover all the territory.

The Chairman: It is rather interesting that that budget could stand the $$4\frac{1}{2}$ million and yours could not.

Hon. Mr. Macdonald: Some of us have had to bear crosses in this Government; others have not.

The Chairman: You do not seem to have lost much weight, Mr. Minister.

Senator Lang: Some southeastern countries, I believe, have put forward the proposition that the best way to deal with Chinese influence in the Pacific would be to neutralize Southeast Asia in the military sense. It would seem to me that that objective would be confirmed by our political posture at the present time to Southeast Asia. I may be wrong in that assumption.

Do you believe that this is a valid objective, to accomplish that end, or is it feasible? If it is feasible, is there a role for Canada in attaining that situation, particularly in view of our newfound relations with the Chinese Republic?

Hon. Mr. Macdonald: Well, I would have to say if one were referring just to Vietnam, and it is obviously very difficult to be drawn into the analysis of such a complicated society as that, I do not think it would be an accurate statement to say it has been entirely a question of Chinese influence which has caused the instability in relations in Vietnam over the recent years. I think this has been an internal decision among Indochinese generally.

There have been tensions for centuries between different regions and groups in that area. Therefore I do not think it can be said that neutralizing that conflict would necessarily affect either the advance or retreat of Chinese influence in the area in terms of Vietnam. While the Chinese have certainly had an interest in the role there, the Soviet Union has equally had an interest in the role. One can also identify North Vietnamese interest, which is not coincident with either of the two.

Given an area with such a large population and the tensions that exist there, I think neutralization would always be difficult. However, it seems to me that because we are not directly involved we can perhaps play a helpful role. This is not only by having relations as we do with Singapore and Malaysia arising from our Commonwealth connection, but the renewed relations with Indonesia which the Prime Minister had the opportunity of assisting in recent days.

There is also the fact that we have relations with China. If we really have established diplomatic relations with all the major factors in that area and have these connecting links, I think we can play a more positive role in bringing about stability than if we confined it to one or two states or showed no interest at all.

I would not exaggerate the extent to which we can really purport to explain the Malaysians to the Chinese or the Indonesians to the Japanese as an outside North American state.

I do not know if I have satisfactorily answered your question; perhaps I did not quite grasp it.

The Chairman: To amplify Senator Lang's question, it is my understanding certainly from the reporting I have read of the Commonwealth meeting in Singapore that this point was made quite strongly by the Prime Minister of Malaysia to Prime Minister Trudeau, but he felt that the Canadian recognition of Red China might in some way give some leverage to this neutralization referred to by Senator Lang; is that not correct?

Senator Lang: Yes, I believe it is.

Hon. Mr. Macdonald: I will be glad to ask him when he returns.

Senator Carter: I wonder if the minister or one of his aides could give the committee some idea of the distances that separate the Canadian and Russian territory across the Arctic?

The Chairman: Would you define your question?

Senator Carter: We have the Canadian Arctic on one side and the Russian Arctic on the other; what are the minimum and maximum distances between the two territories?

General Bell: Apart from the American points in Alaska our closest point, of course, would be the Yukon border to the Soviet Siberia, which would be a matter of several hundred miles.

Senator Carter: You would not be going over the Arctic.

Hon. Mr. Macdonald: "What if you were really proceeding not west, but due north?

General Bell: To the top of Ellesmere or to the North Pole is around 800 miles so the distance across is between 1,600 and 2,000 miles to the appropriate point in the Russian territory. Our closest point of contact would be in the Whitehorse area.

Senator Nichol: As a matter of interest, it is closer from Vancouver to Siberia than from Vancouver to Montreal.

Hon. Mr. Macdonald: Spiritually as well senator?

Senator Nichol: Only physically.

Senator Carter: The only reason I ask that question is because you make a reference on page 4 about the Pinetree radar chain. I had the impression that the Pinetree radar chain was just about obsolete, but your notes do not indicate that.

Hon. Mr. Macdonald: I did not think obsolete would be the word. I think the Pinetree is as effective for its purpose as against the manned bomber as ever it was. I think it can be said with some confidence because basically the manned bomber for which it was built is the one still in service. The Pinetree is not effective to deal with an intercontinental ballistic missile which would be launched from Soviet territory or a submarine launched missile. I am not certain what the correct adjective would be in describing the change in the deterrents. In the late 50's we had a situation where the only strategic deterrent was the nuclear weapon borne on a manned bomber. Now you have the two others systems which in terms of time if not in accuracy, are superior, namely the intercontinental ballistic missile and the submarine-launched missile.

Senator Carter: You are still thinking in terms of the possibility of a bomber threat. I thought that, like everything else, they had been phased out.

Hon. Mr. Macdonald: I think they are still in service and as you know there has been the argument of the Herman Kahn type of discussion of the nuclear scenario which is one that has involved the people like Mr. Snarr for a long time in working out the strategy, and what the programs would be. As I understand it, the current reasoning in the matter is that, in the total absence of a bomber defence, including even a surveillance capability

to be able to tell when they are coming in on you, to the extent that you take the defence away you then enhance the capability of a bomber system. It can be more effectively dealt with if there is an anti-bomber system than if there is not one at all. I have just been advised that in terms of actual electronic equipment, the Pinetree has been regularly updated as the evolutions take place in radar technology.

Senator Carter: You have more sophisticated equipment?

Hon. Mr. Macdonald: I take it there are more sophisticated electronic counter measures on the aircraft, which are in turn met by the...

General Bell: You have met the question of automatic control, data control and system and the passage of information of these types of things has relatively increased the capabilities of the system over the years. and it is still capable of dealing with all of the subsonic aircraft and supersonic aircraft in terms of finding them within a range of those radars.

Hon. Mr. Macdonald: Mr. Snarr might like to add something with regard to the theory of the deterrent.

Mr. W. B. Snarr, Director of Policy Guidance, Department of National Defence: The question is what would the situation be if we did not have bomber defences? Even when the limited number of bombers the Soviet possesses at the present time, and with other aircraft they could convert easily into an intercontinental role, a very effective use could be made against targets, against the United States retaliatory capability simply because bombers without defences are very efficient, effective and a highly useful system.

Senator Carter: Do you have intelligence reports that the Russians are still making long-distance bombers strategic bombers,—because if they have not been making them, they are getting pretty darn old by now?

Mr. Snarr: The pertinent factor, as far as our current defences are concerned, are really what the current capability of the Soviet bomber threat is. There are a considerable number of bombers operational in the Soviet Union now. With that in view, it is appropriate for us to continue to maintain our surveillance and defence capabilities.

Hon. Mr. Macdonald: I understand that fairly recently there was a flight of Soviet long-range aircraft, called the Bear, down the east coast to Cuba. The capability of exercise over a long range is still there, and we have seen evidence of it in the North Atlantic.

Senator Carter: In your presentation you mentioned about a situation in Indochina and peacekeeping forces. You mentioned the studies carried out in your department with a view to analysing options of involvement based on sets of conditions. Could you elaborate a little bit and tell us what options you have in mind and what is possible under what conditions?

General Bell: Senator, as you know, over the years we have been involved in different sizes of operations and

operations with different requirements from those which involve observers to those which involve emergency forces. The problem with the Indochina situation is that whereas the international control system was based on observer situation for the 1955-58 period, we are now dealing with a much larger war spread over a much larger area. The analysis for the types of forces the international community might bring requires us to look at whether it is an observer force like Palestine, or whether it is observers plus a security element to protect them in a semi-hostile situation, or whether it is a question of an international emergency force of considerable size. This is the type of thing we have been looking at in terms of seeing what the nature of the total Indochina situation would require the international community to develop.

Senator Carter: These various options would be in response to certain sets of conditions.

General Bell: Yes. In other words, as you know, under the United Nations they will normally ask a country to participate and to make a contribution, and it remains up to that country to determine the situation and its contribution. For the benefit of our own Government's analysis one would look and see what type of force might be required in Indochina and what types of things Canada might be asked to produce. In other words, we could be asked to go back with, say, 50 or 100 observers, such as we had there in 1955, if that is the type of force that the international community decided it needed. However, there is no point in the Government's committing itself to any of these things in its studies. We are merely looking at the range of possibilities, and in the Indochina area you could have three different kinds of possibilities. You may require observers with some form of security element, or you may require a force of an emergency character depending on the nature of the agreement, and the degree of belligerence reached. We have also been studying the cosmetic requirements and the things which make it more feasible in an operation in the international sense, such as how to get world opinion and international participation. We have been looking at these types of things as a study of our previous operations.

Senator Carter: The minister implied, I think in both his opening remarks and the background to the paper, that with respect to the International Control Commission he wanted to have the terms of reference changed somewhat before Canada would be induced to participate.

Hon. Mr. Macdonald: Yes, I think the problems there are more political than military, but there are certain problems of a military nature. There was, as you know, over the series of years a fairly extensive negotiation and disagreement between the participants in the I.C.C. as to the extent to which they could travel, the decisions that should be made on so on. I think there has been a feeling held in the Government over a period of years that before we got involved in this kind of experience once again we would like to define somewhat more clearly the terms of reference under which it would operate. I think it is fair to say that when we got into the role immediately after the 1954 agreements there was just not the

experience there. If nothing else, we have now had plenty of experience of operation in that tripartite kind of arrangement, and we know what some of the problems are. We want to make certain that we take on a role where we could be efficacious as opposed to one such as that where over a period of time we are not as effective as we might be.

Senator Haig: You want to know the ground rules before you start in.

Hon. Mr. Macdonald: I think we want a much clearer definition of the ground rules. Of course, in order to do that you must have some idea of the kind of problems that arise, and we have a better idea now than before.

The Chairman: Senator Carter, could I ask a supplementary question to yours?

Hon. Mr. Macdonald: Could I just put something in there, in response to what Senator Haig said. Of course, the difficult thing is that there is, I think justifiably, a feeling of Canadian opinion—and I think there would be in this case—that if we can play a constructive and helpful role in Vietnam, then we should get in there right away and do it. I think we would want to play a role, but we want to do so under circumstances that would really permit our men to operate.

Senator Haig: Why get into an organization in which you do not know what you are going to do?

Hon. Mr. Macdonald: I suppose ultimately you get down to the point that it is better to get into an organization where you hope you can bring about a peaceful situation and take some chances, than the one where you fail to participate and therefore have the armistice fall apart. This, I am sure, is the kind of challenge the Government would be presented with. However, I agree with your point, that we want to try to define the ground rules as best we can. The facts, of course, could change, and the ground rules you arrange for set of circumstances A could be inappropriate in set of circumstances

Senator Haig: The conditions will change, so therefore your rules might change.

Hon. Mr. Macdonald: They could.

Senator Haig: We recognize that.

Senator Carter: It is not so much a case of the ground rules. I think the ground rules are fairly clear. It is the interpretation put upon them. Everybody interprets the ground rules for themselves. How do you avoid that?

Hon. Mr. Macdonald: I think Senator Haig would tell you to get a good lawyer in the first place. Life is a lot easier thereafter.

The Chairman: There is a question I would like to ask supplementary to what Senator Carter was asking. I do not want to put you on too much of a spot here, Mr. Minister, but your predecessor in office, I think in the spring of 1969, speculated that perhaps 5,000 Canadian troops might be required in Indochina. Do you have any comment on that?

Hon. Mr. Macdonald: Again we go back to the point I interpolated, that Canada would naturally want to play a helpful role, but I think we have to ask ourselves at some stage: is it going to be an observer role or will it involve more than that? If it is going to involve more than mere observation, we have to accept the fact that, good as they are, 5,000 Canadians could not do what 400,000 Americans have been unable to do. If they are going to have to get into a confrontation situation—more so than, for example, than they were in UNEF or Cyprus—I would be most reluctant to put our people in that kind of situation.

The Chairman: I was very interested in General Bell's exposition, because he indicated that the Canadian position after the cessation of hostilities in Indochina would be in a response situation. It would seem to me that we would not be responding to the United Nations. Would you speculate to whom we might be responding?

Hon. Mr. Macdonald: You see, the United Nations has not been involved in this right through the piece, and it is not involved in the Paris negotiations. I do not think Canada sees itself as getting in the middle and making a settlement between Hanoi and Washington. Presumably if Hanoi and Washington did arrive at a mutually acceptable settlement we might be asked to respond to a request for assistance. I think that is the extent to which the general would be referring as responsive.

General Bell: I was talking about any international grouping that was created.

The Chairman: But not inferring it would be the United Nations?

General Bell: No. It is one of the possibilities.

Senator Carter: Canada participated in the Korean War as part of the United Nations force. What would be Canada's position if hostilities broke out again between North and South Korea?

Hon. Mr. Macdonald: It is a legal question. I take it the Security Council resolutions still apply.

General Bell: Yes, sir.

Hon. Mr. Macdonald: So the authorization for the United Nations force that occurred in 1950 would still be there. As to what our actual contribution would be, I think I would have to take a look at it under the circumstances.

General Bell: It would be a question of a truce, and then a question of a government decision based on whatever the United Nations decided.

Senator Carier: We would be automatically involved in some way.

Hon. Mr. Macdonald: We would still be involved in it in the sense that we are a member of the United Nations. The extent of our involvement would, of course, depend upon our own decisions, just as it did back in 1950.

Senator Carter: On page 4 of the background paper you talk about standardization agreement, and General

Bell referred to it a little while ago. What is standardized? Is it standardized procedures, standardized equipment, or what is the significance?

General Bell: This goes very far back. The aim after World War II was, after we had the experience of working with various types of equipment, to find some way for allies or countries with common interests to get methods of standardizing in a non-materiel sense our procedures, doctrines and terminology, so that we understood one another if we should have to operate together in peace or war. On the materiel level the aim, of course, was to standardize in terms of equipment, to have less complicated logistics problems for the various countries. Where one had development going, not to have the others-Britain, Australia, New Zealand-duplicating and being wasteful of resources, both technical and in the research and development field. Hopefully through standardization, which is a political thing, you might have some economic benefit from the standardization process, with a bigger order for the country that had developed it, so you could have economies of scale. This was it basically.

Senator Carter: Are you making any headway with that?

General Bell: We have in a number of areas.

Hon. Mr. Macdonald: The FN rifle, I suppose, is an example of attempted standardization, which we got into but some of the others did not.

Senator Carter: I understand you had the same problem with NATO and you have not made too much progress.

General Bell: I think there is significant progress in this respect, particularly in the non-materiel sense, in standardizing our procedures and doctrines, particularly in A.B.C.A., in the American-British-Canadian-Australian-artillery sense, because we have been able to standardize our artillery procedures. In the NATO sense we have standardized on the small arms round, which was in fact Canadian developed.

Senator Carter: On the same page you refer to the growing economic strength of Japan, and Japan's taking more of the responsibility for stability in Asia, particularly in naval power. You speak about working out with Japan some sort of an agreement. What would be involved for Canada? How could you co-operate with Japan?

Hon. Mr. Macdonald: I do not think we see it as very probable that there would necessarily be any kind of Japanese-Canadian entente in military terms. I think the paragraph really seeks to convey that there is a certain parallelism in Canadian objectives and Japanese objectives. But I do not think we contemplate a very intimate military participation. As you know, the Japanese themselves have a rather carefully balanced military structure, arising out of the events surrounding the ending of the Second World War in 1945, and their subsequent mutual security arrangements with the United States. I am subject to correction on this, but I would not think

the Japanese, except for the American relationship, have very extensive military alliances with anybody, and we are not particularly seeking them. There is a parallel in our interests. We are interested in stability. We are interested as far as possible in the use of peaceful means in overcoming any danger that might arise, or any warfare in the area.

Senator Carter: I do not know what the continental shelf on the Pacific side is like compared with that on the Atlantic side, but do your patrols look for electronic devices that are planted on the ocean bed?

Hon. Mr. Macdonald: General Bell, are you in a position to respond to that?

General Bell: If we suspected they were there, we would look for them. In terms of maintaining our sovereignty on the west coast it is essential that we know what is coming into the area. Therefore, in the event of any reconnaissance that we undertake in the interests of our own sovereignty, we would look for whatever possibilities there are of placing things on our continental shelf.

Senator Carter: I was wondering whether that would be one area where Japan and Canada could consider a reconnaissance fleet.

General Bell: The continental shelf on the west coast is very narrow and we do not have that same sort of mutuality that we have with our neighbours on the east coast. The other aspect of this question is that when, under the United Nations Convention, we assume responsibility for dealing with the protection of the sea bed, we have responsibility for watching over the sea bed. This is Canada's exclusive area of interest.

Senator Carter: Does Japan participate in any of these agreements with respect to the ocean bed?

General Bell: Yes.

Senator Nichol: I should like to ask two questions which are disconnected. On page 1 of the additional notes it says:

It is known that some missile equipped submarines also operate in the Pacific, but they do not yet constitute a serious threat to North America. However, this submarine fleet is expected to grow over the next few years.

Assuming that these missile equipped submarines are something like those in America, that could reasonably mean that each of those submarines would have, say, 20 or 30 warheads? Therefore "some" missile-equipped submarines turn rather quickly into quite a few warheads.

If this submarine fleet is expected to grow over the next few years, and if each submarine represents 20 or 30 warheads, will this lead us into an increasingly closer and complicated arrangement with America in terms of defence? In other words, will we be involved in the political question of what do we do about our defence against this.

Hon. Mr. Macdonald: We have a very heavy involvement with the American command in terms of anti-submarine warfare systems. One of the matters set forth in the White Paper on Defence Policy is to what extent we should continue to pursue this aspect of our defence policy. It is one in which we are highly specialized. Should we divert some of our resources into the areas of sovereignty protection that I mentioned previously?

In terms of dealing with the submarine launch missile as opposed to the submarine system itslef—and I make the distinction between the two systems—there is a logical difficulty involved when we are talking about a submarine launch system and protection against it.

If we consider the reasoning involved in the nuclear balance, that you cannot take action against a submarine until it launches its missiles—because it would be operating in high seas, and presumably the launching of its missiles would be the first event that takes place in any nuclear exchange—the protective system involved in destroying submarines would not be very useful, at least in relation to the first shot.

It is for this reason that some considerable attention has been given to systems resembling the ABM system—in essence to try to hit the bullets as they come up. I am speaking on the assumption that on the present disposition the principal targets are not Canadian targets.

I do not at the present time see this as a role in which Canada should become involved. Canada would not become involved in this kind of system any more than we are involved in the ANZUS system, which is not at all.

Senator Nichol: What about our possible future commitments?

Hon. Mr. Macdonald: That is something at which we would have to have a long hard look. I do not foresee us being involved at the present time in any anti-submarine missile system.

Senator Nichol: My second question also involves the possibility of future commitment. I am referring now to oil, to the discovery at Prudhoe Bay and the tremendous pressure on the United States to build a pipe line to Valdez in Alaska.

The fact that Middle East oil is beginning to look less and less stable as a source of supply for America, particularly in view of increasing instability in Iran, Venezuela and in other countries, the Prudhoe Bay find is seen as a major source of oil supply. If the Valdez pipe line is built, oil will be moved in super tankers from part of the continental United States down our west coast, presumably through the Strait of Juan de Fuca and Puget Sound. This would be the shortest route into the United States.

That area will change from being a relatively peaceful area of water, where we have at the moment fishing disputes about hake, into a major strategic waterway for the United States. It will become one of the most important routes for oil should that area open up.

In addition a major sovereignty and pollution problem will arise on the west coast because oil ships will be able to enter Canadian ports should they get into difficulty. This will involve a good deal of policing, and a lot of problems.

Should this pipe line go through, will this mean a major shift in emphasis in terms of military and air operations on the west coast, and perhaps a major increase in our naval commitment? This will no longer be a distant stretch of peaceful water and it will, *ipso facto*, become very important to the Russians.

Hon. Mr. Macdonald: And ipso facto very important to us.

Senator Nichol: That is right.

Hon. Mr. Macdonald: I would agree that this enhanced activity and particularly if other overseas sources of oil cease to be available to North America, to the United States, would create a great concentration here and they would be faced with the security problem vis-a-vis the Soviet Union in protecting this. There will be a greater interest in this which obviously will produce some reaction.

There is another aspect to this question and I think it is useful to consider it in thinking of the distinction between priority 1 and priority 2 in terms of the Government's statement of defence policy of April 3, 1969. Priority 1, you will recall, was the maintenance of Canadian sovereignty and the protection of Canada; priority 2 was the defence of North America. Very many people have asked: "Can you name me a scenario in which 1 and 2 are not the same?" I would suggest that there are elements of difference in 1 and 2 and in this case it is distinctly in Canada's interest to protect itself from the kind of enormous oil spill that would be involved in heavy tankers going to the American market.

You would know much better than I the conceivable shipping routes, but it is very possible that these tankers would want to come in Dixon Entrance and pass through Hecate Strait close inland, which is now a contiguous Canadian fishing zone. We would have a very great interest in making certain that any traffic that goes through there will not damage our coast.

Senator Nichol: And, of course, if they come through Juan de Fuca Strait in very congested conditions—that is where the ships running coal from Roberts Bank are going back and forth—it will become an avenue 12 miles wide and fogbound for super tankers and super ships. I guess we are going to need some more airplanes.

Hon. Mr. Macdonald: I would think so. I must say we have set the stage beautifully. I am sorry that my colleague, Mr. Laing, who is a great Mackenzie Valley pipeline man, has now left.

Senator Lang: Speaking on that same theme, Mr. Chairman, one person said to me recently, although he had no qualification to make the remark, that he had heard that the Russians had considerable installations on ice in the Arctic waters, which may very well be in what we consider our territorial domain. Is there any credibility in that statement?

Hon. Mr. Macdonald: There was a news report in this regard some little time back. I think it is recognized that the Soviet Union does have floating ice stations. Whether they are strictly military or for research, I could not be sure. My understanding is that they have none that would be regarded as within our territorial claim.

Senator Robichaud: The two questions I have in mind are with respect to Canada's potential peacekeeping role in Indochina, which has been well covered by the minister and General Bell.

As I know that the Minister of Fisheries and Forestry will appear before this committee very soon I will reserve my energy for that particular meeting. However, I notice that the minister states in his report that already the department has had meetings with representatives of the Department of Fisheries and Forestry and they have offered their services should they be needed.

Can the minister state if in the last five or six years the Department of Fisheries at any time has called upon the Department of National Defence to assist on the west coast, either for patrol or control of Soviet fishing vessels?

Hon. Mr. Macdonald: I must say that I cannot answer specifically except in the last particular occasion I think it could be said that there was a call for assistance. However, this seemed to be a call expressed through the press.

Senator Robichaud: That is why I am asking the question; I wish to ascertain whether the rumours were correct.

Hon. Mr. Macdonald: I must say I cannot confirm them.

General Bell: We have very effective liaison on both coasts with the Department of Fisheries.

Hon. Mr. Robichaud: This I know.

General Bell: They fly on our aircraft when we are doing reconnaissance and when it is beyond their own resources. So when we are doing our own surveillance patrol they go with us. We are having discussions with them regarding their needs and future needs with regard to natural resources in this area.

Mr. Snarr: I think it is fair to say that when the Soviet vessel was brought in one the west coast the Department of Fisheries did ask for air surveillance.

Senator McElman: Was there not another occasion in the Bay of Fundy when assistance was requested from the Canadian Navy with respect to, Russian vessels completely inside our territorial waters?

Senator Robichaud: There again I think it was more or less a newspaper report or remark, because I do not recall that an official request was made to the navy. However, I think that the newspapers did mention this and it may have had some effect on the quick removal of this fleet.

Hon. Mr. Macdonald: Senator McElman, I have always found it easier to follow the Ministers of Fisheries by reading the newspapers; they do not hide their lights under a bushel.

Senator Haig: Past, present and future.

The Chairman: Do you accept that, Senator Robichaud?

Senator Robichaud: Partly only.

Hon. Mr. Macdonald: Senator McElman, we could make some inquiry on that point.

Senator McElman: Yes, I believe there was a request from the province, not from the department.

Senator Robichaud: Yes, the request was made from the province. It had greater publicity in the press and on radio. However, I am sure that by the time any action was taken the Soviet fleet was far away.

Senator Pearson: Is the Chinese army building up at all, either very rapidly or just slowly?

General Bell: The Chinese forces are of a significant size; they are in the millions, as opposed to being in the thousands. They had a significant build-up a few years ago, but I think they had stabilized this about 1960 in trying to improve the qualitative capabilities within their forces, and also in terms of their commanding organization internally. However, I know of nothing about any recent build-ups.

Senator Pearson: Do you know whether they are well trained?

General Bell: We have not had contact with them since the time of the Korean War.

Senator Pearson: I have a hypothetical question arising from that. The Chinese population is growing very, very rapidly. Over the years since this Maoist group have taken over they have probed all around their borders militarily to find weak points.

Could you give us a guess as to what they are aiming for? Are they aiming to take on Russia, India, or where do they hope to go, because their expanding population has to go somewhere?

Hon, Mr. Macdonald: It is very hard to make a determination on the Chinese position, but some say that they have not, contrary to expectation, on the whole been themselves expansionists. They have been inclined to respond to what they felt were pressures along their borders.

It is very obviously a matter of dispute as to what was taking place in the Himalayas with India. Some authors at least have suggested that the Chinese were only responding to what they felt were challenges to their territory. Their participation in Korea has been rationalized in the same way. I think that very possibly one could put the same construction on the recent difficulties with the Russians along the Ussuri River.

Perhaps Mr. Snarr could comment in a general manner as to whether China appears to be expansionist, or really has been responsive to what are regarded to be territorial threats.

Mr. Snarr: It is very difficult to assess what their intentions might be. I think it is pretty clear, however,

from one point of view, that they have tremendous concerns internally which would require about the size of armed forces they have in any case. They also have—perhaps justified or not—concerns about the defence of their own territory from external forces.

Senator McElman: It is well known that the United States, in other nations where it has heavy capital investment through its national or international corporations, also turns up with pretty strong military missions with correlate activity between the two. Is there any area, particularly in the Pacific, where Canada has such missions with military personnel involve?

General Bell: No, sir.

The Chairman: Are there any other questions?

Senator Lang: I should like to ask the Minister to do a little crystal ball gazing. A recent witness, Mr. Minister, Dr. Bull, said that with the gradual disengagement of United States forces in Southeast Asia and a retreating United States influence in that area, and with the rise of China's military capability, particularly in nuclear weapons, and the political and military situation between China and Russia being what it is, he did not foresee in the future the predominance by any one of those powers of the Pacific area, but rather a stand-off situation of balance between them. Would you consider that assessment correct?

Hon. Mr. Macdonald: Looking into crystal balls is difficult. It does seem that there are some events which would tend to support that theory, whether it is justifiable or not. I would think that the United States withdrawal over a period of time would cause Japan to take a more active role in a military sense, and put itself in a stronger position than it is now to engage in defence in its area.

As you know, for many years, because of the mutual security arrangement with the United States, Japan obviously did not have any necessity to make these arrangements. She, in effect, had them by treaty. As the United States withdraws from the area, the Japanese may well decide that it is in their interest to exercise more of an influence of a political kind with military capability, which they have not done in the past. I would think that both the other two great powers and perhaps one can add a third in the form of Indonesia—each of India, Indonesia and Japan will be concerned about having in their general region a strong power, such as China, and all will have to look to their defence capabilities as well as their political interests.

Senator Lang: How would Canada regard the emergence of Japan as a nuclear power?

Hon. Mr. Macdonald: I know it would have to be said that we would be unhappy about that. We have been attempting through the non-proliferation treaty to try to close the club at its present membership. We have exercised very considerable diplomatic efforts both with Japan and with India in recent years to try to persuade them of our point of view in this regard. Looking at it from the other standpoint, I can see those countries as potential or near superpowers, and they would be rather reluctant to

give up this particular option. In some ways it is easy for us to give it up because we do not have the need, but I can understand why they would be reluctant to give up the option. Whether or not they do become nuclear powers I would point out that there has been a lot of strife in the world since the bomb on Hiroshima, none of which has been carried on with nuclear weapons. Below the threshold of a nuclear war there is a lot of scope for insecurity and military threats. It is conceivable that the Japanese might, in what is called the conventional armament sense, put itself in a stronger position to defend its interests than it has done up until the present time.

Senator Lang: Do you see Japan as a potential peace-keeping nation in the Pacific.

Hon. Mr. Macdonald: I would rather see Japan as a stabilizing influence in the Pacific. I think the Japanese make their assessment that peace and stability is very much in the interest of their people in the Pacific, and it is to that extent there is a parallelism between Japanese and Canadian interests. In that sense I would see the potential for them to play a very helpful and very stabilizing role. They may feel they will have to be more active as the Americans move back.

The Chairman: Are there any further questions?

Senator Carter: I would like to ask two questions following along Senator Lang's line of questioning. If China should develop long-range missile capability, how would that affect Canada's defence planning? Would it have any effect at all.

Hon. Mr. Macdonald: Not a great deal under the present circumstances. While, in effect, the trajectory of a missile from Chinese sources would be almost the same as one from Russia, we have no capability of intercepting it, and have no intention of endeavoring to do so at this point. Therefore, the Chinese emergence with these capabilities would not, in a narrow sense, affect Canada. The Chinese emergence in this way, in a broader military sense, is a very formidable prospect.

Senator Carter: Would our present protection be adequate to pick up missiles coming from China?

Hon. Mr. Macdonald: The Canadian equipment is not adequate to pick up missiles at all from anywhere.

Senator Carter: We have no defence capabilities?

Hon, Mr. Macdonald: We have only an anti-bomber defence. The BMEWS, or the Ballistic Missile Early Warning System, is an American system.

Senator Carter: But it is on Canadian territory, though.

Hon. Mr. Macdonald: Not the BMEWS, senator. It is on Greenland, the United Kingdom, and Alaska.

Senator Carter: My understanding is that they had stations on Canadian soil that fed into their new system.

Hon. Mr. Macdonald: Only, I suppose, in a communications sense, or in the sense that we all belong to the same

communications network, but we do not have any facility capable of detecting missiles.

Senator Carter: Not directly?

Hon. Mr. Macdonald: No.

Senator Carter: Under our agreements in co-operation with Australia we send our men down there to get training in their jungle schools. Is it possible now to get training in guerilla warfare seeing that the Australians have got a lot of experience in Vietnam? Are we getting the benefit of that?

Hom. Mr. Macdonald: I do not think we are training any one as guerillas.

General Beil: Senator Carter, I think the answer is that we train our forces in all environments, and the jungle is one of them. We train them in all scales of activities from the low end of the spectrum to the high, and we would be conducting limited warfare training in the Australian jungle school which would be, in our thinking, counter-guerilla training.

Senator Carter: Is the training you do in Australia very different from what is done in the Caribbean?

General Bell: Different types of jungle, different types of environment, and not the size and scope of the area. The numbers of those involved going to Australia are largely structured in small cadres, whereas to Jamaica you can take a company or battalion.

Senator Carter: But there is no training in guerilla tactics.

General Bell: No counter guerillas, that is so.

Senator Carter: I am not talking about urban guerillas.

Hon. Mr. Macdonald: We are trained for that!

The Chairman: Before terminating the meeting, gentlemen, may I say that I have received a letter from the Honourable Otto Lang on behalf of the Minister of Industry, Trade and Commerce. It is additional information and I would like a motion to identify as Exhibit 3 and order that it be appended to today's proceedings (See Appendix "H").

Hon. Senators: Agreed.

The Chairman: Thank you very much Mr. Minister, and thank you very much gentlemen. It has been a most rewarding and educational afternoon.

Hon. Mr. Macdonald: Honourable senators, may I thank you very much for the opportunity to appear, and particularly for your kindness in suiting your timetable to mine. I am very much obliged.

The Chairman: Thank you very much.

The committee adjourned.

APPENDIX "G"

Additional Notes to Statement by the Minister of National Defence to the Senate Committee on Foreign Affairs, 27 January 1971—Canadian Defence Interests in the Pacific Region

Security Situation in Western Pacific

The People's Republic of China continues to grow as a major military power in Asia, second in stature only to the Soviet Union. Its main preoccupation seems to be the security of its borders, and it can be assumed that China will seek to exert strong or even preponderant influence on certain neighbouring states. China is not yet a threat to North America, but eventually her nuclear status will reach a point where she could be. The Chinese programs of testing nuclear weapons and ballistic missile delivery vehicles are now at advanced stages. The Chinese army, navy and air force, however, are deployed and exercised primarily as Asian defence forces, and they have only a very limited capability of undertaking offensive operations at any distance from the continent.

The border clashes between Chinese and Soviet forces in recent years indicate that the USSR sees China as a very real threat to her own position in Asia, and it is this situation that contains the greatest potential for serious conflict in the Pacific Area. Each country presents the other as a threat and rival. China is certainly no military match for the USSR at this time, and there has been some speculation that the Soviet Union might be tempted to destroy the Chinese nuclear development program before it reaches an advanced stage. There is no evidence to support such a move, but periodical border clashes between the two may be anticipated.

The growth in the power and influence of the Soviet Union, and the expansion of its activities in the Pacific, and indeed throughout the under-developed world, is another development of much consequence. Extensive military assistance and equipment have been given to both North Korea and North Vietnam. In the latter case, it is very doubtful if the North Vietnamese could continue the war at least on a large scale without Soviet support. The Republic of Indonesia received Soviet military aid and equipment from 1956 to 1965, but all aid has virtually ceased since the Suharto government attained power and took a strong stand against Communist influence. Some of the Soviet warships and jet aircraft are expected to be returned to the USSR in the near future.

Soviet naval and merchant shipping activities in the Pacific Ocean increase steadily each year. Soviet merchant vessels operate freely in economic competition with the vessels of other nations, but the number of ships operating in the Pacific Ocean has reached the point where the USSR is currently attempting to establish shipping support facilities in Singapore. A large fleet of fishing vessels, with fish processing factory ships, operates in the Pacific, often in pursuit of catches off the western coast of Canada. It is known that some missile equipped submarines also operate in the Pacific, but they

do not yet constitute a serious threat to North America. However, this submarine fleet is expected to grow over the next few years.

The very large scale military deployment of the United States in the Pacific, envisaged in large part as a counter to the growth of Communism in Asia, is another major factor in the Pacific. Though one can foresee an American military presence there for some time yet, it is the announced intention of the United States to withdraw from Vietnam and the obvious desire at present of the US government for the nations of the area to do more for their own defence, the so-called Nixon doctrine. However, the military presence of the US in the Pacific basin, on the islands if not on the mainland of Asia, although reduced from its high point is certain to remain very sizeable for many years to come.

The tremendous growth in Japanese economic power since the defeat in 1945 is bound to be increasingly manifested by greater political influence. That this will also result in a greater Japanese role in Pacific security affairs is certainly possible.

Korea, which was the scene of the last major deployment of Canadian Forces in the Pacific, still represents something of a danger spot. The armistice agreement signed on 27 July 1953 has been observed in principle ever since that time by both the Republic of Korea and the Democratic People's Republic of Korea. Minor infractions of the armistice occur continually, but open conflict has been successfully avoided by both sides. The military strengths of both South and North Korea have attained a state of delicate equilibrium, with eash side assessed as being incapable of protracted or decisive conflict without external aid and support.

The armistice is administered by a Military Armistice Commission, which meets periodically in Panmunjon, at the request of either side. The nations that participated in the Korean War under the United Nations, including Canada, are represented on the commission by military liaison officers. This commission provides the only contact point between the two Koreas, and South Korea is represented by the United Nations Command. Most meetings are concerned with allegations of armistice infractions. The seventeen years of successful armistice, and the atlainment of balance military power between the two Koreas, suggests that open conflict in Korea is unlikely unless either side sees an opportunity to effect a more advantageous settlement by receiving extensive external military support.

The pattern of future developments in the Pacific will almost certainly continue to be fluid, to be marked by rapid change in roles and relationships, and we can expect no equilibrium and cohesion comparable to that existing in Western Europe.

Canadian Military Activities in the Western Pacific

At the present time, Canadian Forces involvement in the Pacific Rim nations is focussed in four fields of activity, namely participation in the International Commissions for Supervision and Control (ICSC) in Indochina, the provision of limited military assistance to selected countries, military cooperation and information exchanges with Australia and New Zealand (as part of larger agreements involving the United States and Britain as well as these two countries), and finally, limited contacts, mainly naval, with Japan.

Canada has been involved in the ICSC in Indochina since they were called into being by the 1954 Geneva Conference. The three cease fire agreements reached, one for each of Vietnam, Laos, and Cambodia, provided for the establishment of an international commission composed of representatives of India, Canada and Poland to supervise the implementation of the armistice terms. The Canadian military commitment to these commissions from a maximum of 114 all ranks at the height of their operations has been progressively reduced over the years to the present 22 all ranks. There are 20 in Vietnam and 2 in Laos. The commission in Cambodia was adjourned sine die in December 1969 at the request of the government of Cambodia at that time.

The provision of carefully evaluated and limited military training assistance, both in Canada and in the recipient country, is one way in which Canada can help selected friendly states. Among the Pacific countries, Malaysia and Singapore, with whom we have Commonwealth ties, have benefited most from our aid program since its introduction in 1964. Since 1966 Malaysia has been provided with four Caribou aircraft, including some spares support, training of aircrew, ground crew and army personnel, and 250 light motorcycles. Selected military training courses have been provided to Malaysian military personnel in Canada, and for two and a half years, until May 1970, BGEN Greenaway of the Canadian Forces served as adviser to the Malaysian Chief of Air Staff. At present one Canadian pilot of an original team of five remains in Malaysia, until March 1972, to assist the RMAF as officer commanding an operational coversion and evaluation unit.

South Korea since 1969 has sent several students to Canada for staff training, and this year, for the first time, Indonesia is included in the staff training program, but in the future Canada will continue to concentrate on training assistance in Malaysia and Singapore, though the precise nature of what this will be has not yet been determined.

Although in financial terms the military training assistance program is modest, and will remain so, the tangible benefits gained by the Canadian Forces include the contribution of fresh ideas to Canadian training courses by students from foreign nations, the opportunity for service and travel in foreign countries for Canadian servicemen and the knowledge gained therefrom, and the opportunity for employment in a military-political atmosphere.

Canada continues to value its fraternal links with Australia and New Zealand and it is intended to carry on with our military cooperation and information exchanges with them within larger agreements which also include the United States and Britain. The main benefit derived by the Canadian forces is through the Standardization Program and the Technical Cooperation Program. These

provide and have provided for over twenty years an extremely valuable exchange of defence information on technical, scientific, and equipment matters and on tactical concepts.

The Technical Cooperation Program, in which the Defence Research Board is involved, originated in the 1950's and originally included the US, Britain and Canada. Australia came into the program in 1965 and New Zealand a few years later. This program embraces many aspects of defence research and development and is basically an information exchange agreement. It is useful to Canada in that much valuable information is received, it enables us to keep track of what the other countries are doing in defence research and thus enables us to avoid dupl.cation and focus our efforts in the most useful way. Australia is in on all aspects of the cooperation program, whereas New Zealand's interests are more limited.

The Standardization Agreement involves close cooperation, including the exchange of knowledge and information, between the US, Britain, Canada, Australia, and, to a lesser extent, New Zealand in land forces material, training, procedures, and research and development. The Canadian Forces also derive much useful information from this exchange, and Australia's input is notable in the matter of jungle warfare training and infantry skills. Trainees have on occasion been sent to the Australian army jungle warfare school.

A Canadian presence in the Pacific Rim nations is maintained through exchange of naval visits and joint exercises such as the visits to Australia and New Zealand in 1969, the visit to Japan at the time of Expo 70, and Japanese naval participation during the B.C. Centennial Celebrations this year. In addition, Canadian Forces aircraft from Air Transport Command and Maritime Command Pacific carry out training flights throughout the area.

Japan, besides being one of the most important nations along the Pacific Rim is also of special importance to Canada because of geographical relationships and growing economic involvement, the frequent similarity of Canadian and Japanese interests and objectives in the foreign policy field (Japan has, for example, on important occasions supported Canadian positions on peacekeeping and arms control), the probable growth of Japanese defence forces, particularly naval, and a mutual Japanese and Canadian desire for stability in the area after the US withdrawal from Vietnam. Military contacts with Japan, and other Pacific states, are, of course not only useful militarily, but are in Canada's interest in pursuing our general aim of expanding our contacts in many parts of the world.

Canadian Armed Forces on the West Coast

Sizeable elements of the Canadian Armed Forces are deployed in British Columbia but the tasks assigned to them come under the first two roles specified by the Prime Minister in his April 1969 statement on defence policy, namely, surveillance of our own territory and coastlines—that is the protection of our sovereignty—and

the defence of North America in cooperation with United States forces, and are not directly related to the subject of Canada's relations with the countries of the Western Pacific.

The main bases on the West Coast are CFB Esquimalt, under Maritime Command Pacific, CFB Comox, under Air Defence Command, and CFB Chilliwack, under Training Command. The main combat units are the 2nd Cdn Destroyer Squadron of four destroyers at Esquimalt, No. 407 Maritime Patrol Squadron of six Argus aircraft and No. 409 All-Weather Fighter Squadron of 12 CF-101 interceptors, both at Comox, and the 3rd Battalion PPCLI at Work Point Barracks, Esquimalt (which at present is on UN duties in Cyprus but will be returning in March). There are also three stations in the Pinetree radar chain in British Columbia, the School of Military Engineering at Chilliwack, and numerous other support, training and ancillary units and establishments.

Altogether some 8600 Armed Forces personnel are stationed in B.C. Of the operational forces, the air defence

units come under the joint control of NORAD; the maritime and ground forces are under purely national command, though the former operate in close cooperation with US naval forces in the Pacific.

As noted, the employment of our operational forces on the West Coast is within the context of national and continental defence, and their strength and deployment will be governed by the government's assessment of our sovereignty requirements and of the military threat to the Continent from this area. They are also of course available—as are all the Canadian Forces—for any military requirements which may arise on the other side of the Pacific, or indeed anywhere in the world.

In addition to the normal tasks of our West Coast forces in the defence of Canada, and of North America in cooperation with the United States, the services of these forces are at the disposal of other government departments should the need arise.

APPENDIX "H"

December 31, 1970.

The Honourable John B. Aird, Q.C., Room 185 S, The Senate.

Dear Mr. Aird:

When my colleague, Mr. Pepin, returned from appearing before your Committee on November 4th, he asked Departmental officials to investigate further some aspects which were discussed during the hearing. Their investigation has now been made, and I am passing on the results on behalf of Mr. Pepin, in the event they will be of interest to your Committee.

Further research into the composition of our exports to the Pacific Rim revealed that while total exports to the area did not quite double from 1962 to 1969 (from \$544 million to \$1,062 million) the proportion of manufactured goods more than doubled (from \$187.5 million to \$487.9 million). To put it another way in 1962 manufactured articles represented 34.6 per cent of our total exports to the area that year while in 1969 this percentage of total area exports increased to 46.1 per cent. However with the growing shipments of coal to Japan over the next few years we shall probably have difficulty in maintaining the progressive percentage increase for manufactured goods that has been possible in the past.

During the hearings there was an impression among some members of the Committee that we had done rather poorly at the last Canton Trade Fair in China. However, it must be remembered that Canada is not an exhibitor at the Fair. Only China exhibits merchandise at the semi-annual Kwangchow Chinese Exports Commodities Fair although buyers and sellers from many other countries attend to negotiate buying and sales contracts with the Chinese. At the Fall Fair this year, 70 Canadians were invited to attend and many Canadian importers appeared to be given preferential treatment over other potential customers possibly because the opening of the Fair occurred a few days after political recognition. We shall be posting a trade commissioner to our new

Embassy in Peking on January 9th to keep in regular contact with the head offices of the seven Chinese state trading corporations which do all the foreign trade of China. We are developing a strategy to capitalize on any opportunities that may be presented by this new situation.

Committee members also expressed a great deal of interest in Japan and Mr. Pepin thought they might like to know what promotions the Department proposes to undertake next year to follow up on the favourable image Canada created at Expo 70. One of the first ventures was an in-store promotion in one of the largest department stores in Tokyo. It was so successful that further in-store promotions will be mounted next autumn and winter in Japan. Also incoming and outgoing missions will be undertaken covering such varied products as rapeseed, aircraft equipment and forage seeds. The best technique for developing meat sales in Japan has been found to be a specialized promotion, usually in an hotel, to which large meat buyers are invited. Promotions of this nature will be held in Tokyo and Osaka next year. An example of the heightened interest in Canada and Canadian products, is the reaction to a special Japanese edition of Canada Courier which advertises products in which Canada has a competitive advantage. Two weeks after its release in Japan there were 146 direct trade enquiries and 35 complimentary notes on the publication

At the end of the hearing when provincial trade offices in Japan were being discussed, Mr. Pepin agreed to Senator Cameron's suggestion that he phone Premier Strom concerning Alberta's intentions in this regard. The Committee will be interested in learning that Alberta has followed Ontario's lead and has opened an office in Tokyo which works closely with the trade commissioner's office in Tokyo to advance Alberta's commercial interests in Japan.

Yours sincerely,

Otto E. Lang, Acting Minister.







THIRD SESSION—TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 9

TUESDAY, FEBRUARY 9, 1971

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Respecting

THE PACIFIC AREA

(Witness:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman and

The Honourable Senators:

McElman Belisle McLean Cameron McNamara Carter Nichol Choquette Connolly (Ottawa West) O'Leary Pearson Croll Quart Eudes Rattenbury Fergusson Robichaud Gouin Sparrow Haig Sullivan Lafond White Laird Yuzyk—(30) Lang

Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

CORRECTION

MINUTES OF PROCEEDINGS—Issue number 8—January 27, 1971

(English Copy Only)

In the second last paragraph:—The expression 'Exhibit "Z" should read 'Exhibit "3".

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier Clerk of the Senate

Minutes of Proceedings

Tuesday, February 9, 1971. (11)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 3.10 p.m. this day.

Present: The Honourable Senators Aaird (Chairman), Belisle, Cameron, Carter, Connolly (Ottawa West), Eudes, Fergusson, Grosart, Lafond, Martin, Macnaughton, McNamara, Pearson, Quart, Robichaud and Sparrow.—(16)

Present but not of the Committee: The Honourable Senator Molgat. (1)

In attendance: Mr. Bernard Wood Special Assistant to the Committee.

The Committee continued consideration of the Pacific Area.

Witness:

Mr. Thomas Pope, Assistant Vice-President, Bankers Trust Company, New York City.

On motion of Senator Grosart,

Ordered—That a paper entitled "JAPAN", prepared for the information of this Committee by the Department of External Affairs, be appended to today's printed proceedings (see Appendix "I").

At $4.50\ \text{p.m.}$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs Evidence

Ottawa, Tuesday, February 9, 1971

The Standing Senate Committee on Foreign Affairs met this day at 3 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, up to this point in our specific study we have generally been looking at the area as a whole, with special attention to Canada's economic and security interests. Mr. Mark Gayn in his testimony concentrated particularly on China, but our witness today has been asked to focus on Japan.

Mr. Tom Pope is a former foreign service officer with the Department of External Affairs with an unusual wealth of experience in the Far East. After joining External Affairs in 1954, Mr. Pope studied Chinese first in London and then later for two years in Hong Kong. In 1961 he was appointed Acting Canadian Commissioner on the International Control Commission in Cambodia. Of course, you will all appreciate that this is a somewhat timely appearance in that regard.

In 1964 Mr. Pope was appointed to the Canadian Embassy in Tokyo where he served as First Secretary and then Counsellor until 1969. Subsequently he joined the Bankers Trust Company, serving for a period in Tokyo and then, more recently, as Assistant Vice-President in the head office in New York.

It is these impressive credentials that caused us to ask Mr. Pope to comment on the Government's policy paper on the Pacific, and on the background notes on Canada-Japan relations prepared at my request for the committee by the Department of External Affairs.

I understand that each member of the committee has a copy of those notes. If the committee agrees, I suggest that this latter paper be appended as an annex to our proceedings. May I have a motion to that effect?

Hon. Senators: Agreed.

Note: (See Appendix "I")

The Chairman: I might mention that this paper is one of a series received from the department, and I propose that those dealing with other countries be circulated in connection with future meetings.

On behalf of the committee I welcome you, Mr. Pope, and thank you for coming up from New York on this somewhat difficult day.

As an aside I might say that I regard it as rather pertinent to tell you that, when I was in Tokyo two and a half years ago, Mr. Pope acted as my personal guide around the city. I am very grateful to him for that experience. We both probably remember it rather vividly.

Senator Grosari: Perhaps you could tell us about it.

The Chairman: It is not for the record, senator.

Senator Pearson: Did you have a few snowdrifts there?

The Chairman: No, senator, but we drifted very well around Tokyo.

Following our usual custom, Mr. Pope, I will ask you to proceed with your introductory statement, which I understand will take 15 or 20 minutes, and then we will get on with the questioning. At that time I will look to Senator Bélisle to initiate the questioning, with other senators following in due course.

Mr. Thomas Pope, Assistant Vice-President, Bankers Trust Company, New York City: Thank you, Mr. Chairman. After our experience in Tokyo two years ago I think your references to my vast experience in Asia were generous, to say the least. I should start off, honourable senators, my admitting that in presenting myself as an expert on Canada-Japan relations, I am a fraud. I quit the Department of External Affairs two years ago, and since that time my only preoccupation has been the attempt to make money as a New York banker out of Japanese bankers. This is a difficult and wholly time-consuming job. As a result, I do not think I can fairly claim to be more than an interested but nevertheless distant observer of Canada-Japan relations. So, with that background and that disclaimer I hope you will bear with me if many of my thoughts have either been overtaken by events, or otherwise made out of date.

I was somewhat concerned when first invited to speak on Japan and Canada's relations with that country, that the distinguished members of this committee might expect too much in the way of a reasoned, activist program detailing how Canadian attitudes might become a major factor in the determination of Japanese political, foreign and economic policies. My concern was not lessened by a reading of the paper simply entitled "Japan", and prepared, I believe, by the Department of External Affairs, which sets its sights very high indeed. On the first page it reads:

Canada's interests in Japan cover naturally the whole range of subjects normally arising between countries with substantial political, commercial and other ties.

It is

in Canada's interest to maintain close and friendly relations, and to maintain and if possible strengthen Japan's pro-Western foreign policy and its democratic political structure.

I wish that this last sentence had been put rather more in the passive voice, and that there remained less implication that Canada really could do very much about maintaining, and, if possible, strengthening the democratic political structure of a country with a totally alien cultural tradition, with which Canada has had no ties of history, and separated by the vast expanse of the Pacific Ocean. But I think that the author of the paper may have realized himself that the reality was somewhat less substantial than his hopes. The first example of the closeness of relations between the two countries given in the paper is the Canada-Japan Ministerial Committee, a committee that has met just twice since 1964. From such heights, its a short step to student exchanges and NRC scholarships.

To put the matter in perspective and to give you an idea of what political relations with Japan could be, I would ask honourable senators to imagine what a similar paper prepared by the State Department for an American Senate committee would look like. It would deal with actual political problems between the United States and Japan. These, of course, would be Okinawa, United States bases in Japan, and popular political pressures against them. They would deal with the defence of Korea and, of course, with United States attitudes towards Taiwan. None of these hard elements which really amount to political relations between countries exists between Canada and Japan.

Senator Grosart: Mr. Chairman, may I interupt for a moment? Did I understand you to say, Mr. Pope, that the Ministerial Committee has met only twice?

Mr. Pope: Since 1964. The Ministerial Committee started off with a great deal of enthusiasm, and I believe it met three or four times in the first four years. After that there was a natural falling off of enthusiasm. It met in 1964, and it met again, I believe, in 1966 or 1967 and then again in 1969.

Senator Grosart: The paper said it met five times, and that is why I wondered.

The Chairman: You are satisfied that the five times does go back over the proper time period, are you?

Senator Grosart: Yes.

Mr. Pope: My point today, however, is not to debunk the idea of the possibility of meaningful relations between Canada and Japan, but to delimit the totality of these relations as far as possible, to discover where Japan is important to Canada, and where Canada can be important to Japan. If we limit our objectives, we may find some areas where there is a mutuality of practical interest, as opposed to broad generalities such as common membership in disarmament committees.

The raw material that presents itself to policy planners in the Japanese Government can be listed in three easy steps: China, the USA, and the USSR. Of the three, the former two are vastly more important. China's present ambitions in Taiwan, and its potential ambitions in Southeast Asia are a threat Japan must either turn back or coexist with. Japan's relations with the United States are more complex; Japan's claims for the return of Okinawa and public pressure against the United States bases remaining in Japan proper, contribute to the withdrawal of the United States military presence from Asia, and make it more likely that Japan itself may eventually be forced into a military role most Japanese would prefer

to avoid. The mystery here is that Japan has no post-war track record as a politico-military power; its re-emergence throughout the decades of the fifties and sixties was as an economic power. We have no way of knowing how a Japanese government will conceive of its role in Asia some five or ten years hence. I am convinced, however, that this conception will owe very little to trans-Pacific inspiration, and will probably be misunderstood by ourselves and by the United States on that score.

This sketch does not leave much scope for an independent Japanese preoccupation with Canada. There are of course times when Canadian actions affecting Asian problems become an object of direct Japanese concern. One such occasion was the recognition of Peking, less for its effect on Canadian relations with China, than for the negative effect on the continued existence of Taiwan. Another example has to do with our role on the Indochina Commissions. In the unlikely event that the Commissions should, in their present form, play a significant role in the post-Vietnam situation, the Japanese will be actively interested in Canadian attitudes and policies on the Commissions and will wish to consult with us. But these are accidents and do not affect the basic limiting fact that Canada has no real political presence in Asia: and Asia is the area where Japan must necessarily be primarily concerned.

This does leave trade, but even here the problem is bedevilled by two obstacles. The first is psychological, on our part. Trade is often supposed to take care of itself, or at least to be the more mechanical side of the relations between two countries. In the case of Canada/Japan relations, this leads to such aberrations as the lead-in to External Affairs' paper on Japan: "Although trade and economic interests provide the strongest link between the two countries..." Am I being over-sensitive in reading a disculpatory note into that "although"? I do not believe that trade worth \$1.2 billion a year needs an "although" to excuse it. I think what it does require is a careful examination whether the commitment of Canadian resources implied by such a level of trade results in a furtherance of Canadian interests. I wish I had the confidence that our approach to the Japan trade was as well thought out as the Japanese approach to the Canadian trade.

The second obstacle has to do with Japanese attitudes. The enormous level of the Japan-Canada trade represents only 10 per cent of the Japan-U.S.A. trade, and the mix of Japanese exports is largely the same in both cases. It is not surprising therefore, that the Japanese might regard the trade with Canada as being an appendage to the trade with the North American market as a whole. Many of the commercial or quasi-commercial questions between Canada and Japan on one hand and the U.S. and Japan on the other are similar; in many cases they are identical. Because the problems with the United States are liable to have far greater quantitative effects on Japan's interests, however, it follows that the Japanese will seldom negotiate with Canada without having in the forefront of their minds the effect of the results of these negotiations with Canada on their negotiating position in similar negotiations with the United States. The result is that the negotiations with Canada

are in effect postponed until the Japanese determine what they can get out of the Americans. If lucky we will get as much; we will never get more,

It is well known that the Canada-Japan trade is favourable to Canada on a dollars and cents basis, and favourable to Japan on a value added basis. This means no more than that Japan, as a matter of deliberate policy, buys from Canada raw materials in their most unfinished state, and thus creates few jobs for Canadians, while Japanese exports to Canada consist for the most part of highly finished goods. Throughout the years I spent in the foreign service, I read a great number of papers on Japanese foreign policy and political aspects of Japan-Canada relations. Some of these papers were very sophisticated. I never saw a paper which analyzed with any degree of precision the relative advantages of the Japan-Canada trade, if only to counter Japanese arguments at the Ministerial Committee meetings about the imbalance in Canada's favour. One may have been written since, but if so it is not reflected in the booklet on the Pacific in the Government's policy paper series. While this booklet notes the different compositions of Canadian and Japanese exports and speaks of the need to remove barriers to trade and investment, it also speaks of Japanese investment in Canada being advantageous to the development of Canadian resources. I wish I were certain that this sentence had been written on the basis of a detailed study, to ensure that we are in fact talking of the development and not the depletion of a Canadian resource: that the foreign exchange gain from the transaction is sufficiently great that we would in fact be worse off letting the resource lie idle; I wish there were a national rather than series of provincial policies on the degree of processing in Canada required of all foreign investors in the natural resources area. We should, I think, identify those areas where Canada has a virtual monopoly, and can dictate policy, and those where a restrictive policy would simply result in giving business to our competitors.

I do not suggest that this would be an easy task. There is no reason why Japan should buy Canadian in preference to Philippino copper. What I am suggesting is something along the lines suggested to this committee by Mr. Hobbs of Cominco when he praised the Japanese trading companies and suggested that Canada might be better served if it knew the same sort of institution. I think we suffer, and apparently Mr. Hobbs thinks this as well, from a shotgun approach. Although our products meet important competition from the Philippines, Australia and other countries, we are not wholly defenceless. The Japanese preference for processing in Japan is expensive and will become more so as Japanese labour costs increase. And Canada along with Australia presents relatively few political risks. More than many countries of Southeast Asia which are also competing for Japanese investment, an investment in Canada is likely to be a going concern some 20 years hence. Have we searched through these advantages and sought to impress them on the Japanese?

The government's policy paper on the Pacific is in many ways a not wholly satisfactory document. It does, however, have the virtue of semi-honesty, and that gives

the paper a great deal of its dullness. For instance, it states that "in the Pacific, as elsewhere, Canada is not a great power, not a prime mover." It would probably have been more accurate to say that in the Pacific, especially, Canada is not a great power. "At the present time it does not appear to be in the Canadian interest to seek to participate in the various multilateral or bilateral security arrangements in the Pacific." This is an expression, in general terms, of the particular point I was making earlier, about the main direction of Japanese policy and interest being towards Asia, in which Canada wields no significant power or influence. This should lead, as I suggested above, to a greater concentration on the bread and butter aspect of our relations with Japan. But it should not imply that we should withdraw from any political role in Asia. We clearly do not have the immediate interest in the security of Singapore that the Australians have. On the other hand, we do have a right to concern ourselves with the future of an area that has seen within this generation Hiroshima, the Korean War, and the Vietnam conflict.

I agree that the best way to do this is not through any of the existing regional security organizations. I have often wondered why, however, greater thought was not given to former Japanese Foreign Minister Miki's scheme for a Pacific Rim Grouping composed of Japan, Australia, New Zealand, the United States and Canada. Admittedly, the Japanese foreign ministry itself never wholly supported Mr. Miki's scheme, and Mr. Miki himself sometimes seemed to regard it as a means of funnelling aid funds from the other four Pacific Rim countries through Japan to what the Japanese might regard as worthy recipients. It seems to me, however, that there might be considerable advantage to regular consultation among the developed countries of the Pacific Rim. It would affirm Canada's position as a Pacific power in a more meaningful way than the policy paper can envisage. It would also involve Japan in a continuing dialogue about the future of the area with its developed country partners at a time when the U.S. presence may be withdrawn, with only a totally unknown Japan in a position to replace it. Perhaps it would be in our interest to learn as much as we can of that Japan and its Asian intentions. If we do, we might be able to avoid the hesitancy of the government paper's formulation which, after noting that Japanese power and influence will continue to grow, writes: "By and large, this is a natural and inevitable development. To the extent that it contributes to regional stability, it is to be encouraged." I do not think the Japanese really need our grudging imprimatur. I do believe our interests lie in being associated with their decisions.

The Chairman: Thank you very much, Mr. Pope. I could not help reflecting as I sat here that the Bankers' Trust's gain from the Canadian External Affairs Department is sizable. I think that you have made a number of provocative statements; that you have made a number of statements that you would never have made three or four years ago, in your former capacity; and as usual, I am delighted by your honesty and direct approach to the problems.

Senator Belisle?

Senator Belisle: Thank you very much, Mr. Chairman, for giving me the opportunity to express to Mr. Pope the committee's appreciation for having given us a broad and general review of our economic prospects in the Pacific, and more precisely in Japan.

In your general comments you gave us some valuable information, with your background of experience as a diplomat and as a banker. It is not every day, Mr. Pope, that we have the advantage of having a diplomat who has then become a banker and who also has given us such valuable information as you have.

May I refer to page 4, where you say:

I wish I had the confidence that our approach to the Japan trade was as well thought out as the Japanese approach to the Canada trade.

On page 7 of your brief you state:

Only eight Canada-based companies have direct investments in Japan and these are all in joint ventures with Japanese companies. The better known companies are Alcan, Comico, Inco, The Moore Corporation and Emco.

My question is this: Is there any future hope of enlarging this to 15 or 20 companies? Are we lacking the business know-how to compete with the Japanese, or is it that we cannot compete with them in what you call, on page 5, "highly finished goods"?

Mr. Pope: Are you talking now about exports or joint ventures in Japan?

Senator Belisle: Exports and companies in Japan.

Mr. Pope: In the case of joint ventures, the Japanse government has been engaged over the last few years in a program of liberalization. There are four rounds of liberalization that are to take place in all. Three have taken place so far. The first was in areas like shipbuilding, where it is quite unlikely that any foreign capital could compete with existing Japanese capital.

The third round is somewhat more significant, and the fourth round will probably include most of the areas of potential investment that would be of interest to foreigners.

Unfortunately, although the liberalization has taken place on paper, the Japanese have not yet liberalized the procedures. To take an example that could affect my present profession, banking was, in theory, liberalized in the third round of liberalization which took place last fall. The effect of this is that if I could find a Japanese partner willing to put up a sufficient amount of capital, I could start a bank in Japan. First of all, of course, I would be left with the problem of getting a licence from the Ministry of Finance to engage in the banking business in Japan, but it would not allow me to buy into an existing bank. It would allow me to set up a new bank—which I doubt very much is really a very meaningful proposition.

In other words, until the Japanese become more confident themselves about foreign capital, the liberalization is largely a paper one, and I would not be concerned that

there are only eight companies with joint ventures in Japan. That is to say, the resistances are more on the Japanese side than they are on the Canadian side. When the barriers are removed, then we may find that Canadian business itself is too conservative or does not have the imagination to move into the Japanese market; but so far that case has not been proven.

In the case of exports of finish products, I do not think you could sell unless you are in the market. There are very few Canadian firms actually represented in Japan. Those that are represented already have joint ventures in particular fields with Japanese companies. We also have a number of Canadian banks; we have the Canadian Pacific, and CP Air; we have Air Canada; we have the Canadian National Railways. We have very few Canadian manufacturing firms in Japan who have sought actively to develop the Japanese market. It is not an easy market to develop. There are various restrictions. There are quota restrictions.

I feel, however, that Canadian industry has not given the time required to see whether this market can be developed.

Senator Belisle: Thank you very much. I feel that my confrères are much more versed in finance than I.

Senator McNamara: Referring to the page 4, what is the fourth stage?

Mr. Pope: The fourth stage is liberalization which is to take place, I believe, by the spring of 1972 and would include all those industries which have not yet been liberalized until now.

Senaior McNamara: Thank you.

Senator Grosart: Regarding joint ventures between Canadian and Japanese businessmen or businessmen from other countries is there statutory requirement or legislative requirement that foreign interest should be a minority interest?

Mr. Pope: Not necessarily. It depends on the industry in question. In the mining industry I do not know what is the actual limit, but most of the industries that have been liberalized up to now are in the 50 per cent or 100 per cent category. As a general rule of thumb one can take it that those industries that are particularly sensitive will be liberalized up to 50 per cent, but those industries which are not sensitive or in which the Japanese have a dominant position will be liberalized to 100 per cent.

For example, the automobile industry has not been liberalized although it is expected that it will be. It will certainly be liberalized in the fourth round. Even though it may be liberalized to 50 per cent, I do not believe that in practice the Japanese Government will allow any American car manufacturer to establish a joint venture with a Japanese manufacturer beyond about 35 per cent.

Senator Belisle: Mr. Pope, knowing that our Expo participation was well appreciated by the Japanese and by the Asians at large, and that Expo has been frequently cited before the committee as an important breakthrough

in stimulating Canadian-Japanese awareness and interest, how important has this been? Has it been followed up effectively and, if so, in what field; or can more be done?

Mr. Pope: I do not believe that Canadian participation in Expo was a breakthrough. I was in Japan at the time and I was not aware that the Canadian Pavilion or representation by British Columbia, Quebec, or Ontario in Expo weighed upon the minds of my Japanese friends.

I believe the pavilions were successful, but it must be remembered that there were some 70 or 80 pavilions and some of those pavilions were very good indeed.

The second point is that a funny thing happened in the Japanese attitude towards Expo. Something similar happened with the Boeing 747. As far as I have been able to ascertain, the 747 is an excellent airplane, but if one asks anybody what they think of it they say it is a terrible airplane and makes one think of a DC-3. A reverse snobbism has overtaken the aircraft, and has made it unpopular. The same thing happened to Expo. Expo became very popular with the ordinary people, with the farmer from Hokkaido who had never seen the west; but if you asked your friends in Tokyo whether they had been to Expo yet—that is, the people that I met—it became almost an object of pride to them to say they had no seen Expo and had no intention of seeing it.

Senator Robichaud: But this would apply to Toronto or New York.

Mr. Pope: Yes, and it did apply. The people reached by Expo were not the people who would be in the decision-making levels in Japan.

Senator Connolly: But they may be the people of the future. Sixty million people cannot be ignored, surely.

Mr. Pope: It depends on the social class. If you are talking about Hokkaido farmers, they can be ignored.

Senator Connolly: But the picture is keyed to the younger people. In 20 years the young people of today will be older, and they will be in charge.

Mr. Pope: In 20 years from now Canadian participation in Expo will be a vast blur in their minds. I am sorry to be cynical about Canadian emphasis on Expo, but given the numerical competition I do not think it has left a mark on the Japanese mind.

Senator Grosart: But we cannot be sure. The Crystal Palace Exhibition in the 1850s sparked the British export trade. Not many people remember it, but it was a start. It was the presence of Britain in the high manufacturing areas. Perhaps the same thing may apply with our presence in Japan at Expo. No one can expect to put an immediate cost benefit analysis on it, but I would say that the efforts had a Canadian impact, and I am sure there must be millions of Japanese who had formerly never heard of Canada but who now know that Canada exists. That is a start, surely, in international relations.

Mr. Pope: Senator Grosart, I hope you are right.

Senator Macnaughton: May I expand that a little further? When we are in competition with Australia in the

Pacific area, do you not think that the fundation laid by the Canadian pavilion and the provincial pavilions have given us a slight breakthrough in the minds of Japanse when it comes to their saying, "I will buy Canadian or I will buy Australian."

Mr. Pope: These things are very subtle. In my six months in Tokyo, from July to December, no Japanese of any class noted that I was a Canadian or used this as a lead into a discussion or appreciation of Canada's contribution to Expo 1970. I agree that this is a very small sampling.

Senator Connolly: Do these friends of yours think that it was worthwhile for Japan to have Expo 70?

 $\mbox{Mr. Pope:}\ \mbox{I}$ think the common people thought it was very worthwhile.

Senator Connolly: I am not speaking of the common people. I am talking about the people with whom you were associated. Did they think it was a waste of Japan's time?

Mr. Pope: No, because Japan actually made money on Expo. As I say, there was a reverse snobbism. They may in fact have been impressed by Expo. It was, of course, terribly crowded. If one wanted to get to the Canadian Pavilion one could hardly stop long enough to consider it. There were so many pavilions. There were so many people trying to get into the various pavilions. There was developed almost a psychology of trying to get into as many pavilions as possible. If one had only three days, one said, "Let us get to the Canadian Pavilion," and one had about five minutes in which to rush to see it before rushing off to see the Australian pavilion.

Senator Connolly: But do you know that?

Mr. Pope: I was told that was the situation.

Senator Macnaughton: Was that your reaction to Expo '67.

Mr. Pope: I was not here, unfortunately; I was in Japan at the time and I did not get to Expo '67. However, I believe that Expo '70 was much more crowded. There were days, especially in the closing weeks, when 870,000 people attended in one day.

Senator Macnaughton: Yes, but apart from this tremendous crowd attending Expo '70 you still had your private banking dinners, managerial luncheons and the introduction of Canadian capitalists to Japanese capitalists. Surely that is all to the good, otherwise you would not have anything at all.

Mr. Pope: It certainly was all to the good, Senator Macnaughton. It was an enormous expenditure and I wonder if it could not have been spent in other, more productive ways than in competition with 80 other countries.

The Chairman: As a result of this very interesting point of view, do you think it would have been better for Canada not to have gone to Expo at all?

Mr. Pope: I think in the circumstances we had to go, just as everyone else. However, we should not mislead ourselves into thinking that the results of the Canadian participation at Expo were more than they were.

Senaior Cameron: I was very interested in Mr. Pope's most realistic assessment of the whole situation. I think this is good. However, I am intrigued by his assessment of the reaction to Expo. I was there and, first of all, I will say he is right, that one was literally carried on a sea of people through the pavilions. There was little chance to stop and see very much. I never before had the experience of just being carried along by the sheer dynamics of people as was the case there. It was too overcrowded. However, does your thesis that we did not gain very much out of it and the money might have been better spent in some other way, not fly in the face of the typical private enterprise, capitalistic philosophy that the money should be spent on making an impression through advertising?

Your thesis is that we could spend the money in much better ways; I am not arguing with that, maybe we could. However, it seems to me that there is a contradiction there in terms of the philosophy, I suspect, of the Bankers' Trust and that of the Canadian Government.

Mr. Pope: I did answer Senator Aird to the effect that I think we could not have refrained from participating.

Senator Cameron: I know you did, but there is much more than that.

The Chairman: I am not sure that Mr. Pope thinks there is.

Senator Macnaughton: How would you have spent this money?

Mr. Pope: Let me tell an anecdote. From 1966 when, Seiji Ozawa was the conductor of the Toronto Symphony Orchestra, it took us three years to get him to Japan because the necessary subsidy amounted to \$50,000. Now, there was a natural, if we are discussing the attempt to impress upon Japan that Canada does have a culture, and a contribution to make in the field of the arts. The fortuitous fact that Seiji Ozawa was the conductor of the Toronto Symphony Orchestra was an obvious chance not to be missed, but it almost was. There was far more effort expended in the Embassy in Tokyo, and far more dispatches and reports written on this subject than on any other, in my experience, before or since. That was simply an expenditure of \$50,000, which we were not able to get for three years. Yet we were able to expend \$12 million very easily over a period of six months when it was Expo '70.

Senator Grosart: It is all a matter of viewpoint. I remember the argument that went on at the time. As a matter of fact, I was trying to obtain a subsidy for the National Youth Orchestra. There were those who said that to send an orchestra with a Japanese conductor to Japan was not the best way to impress that country with Canadian culture.

Mr. Pope: My point is that the Toronto Symphony Orchestra is not known. If we send it out with Ernest MacMillan it is quite possible that he would play to empty houses. Seiji Ozawa left Japan under a cloud, and is a notorious person.

Senator Grosart: He is trying it again in Los Angeles.

Mr. Pope: But his notoriety would ensure that the Toronto Symphony Orchestra would be noticed.

Senator Belisle: Let us return to the economic relations and balance of trade. In addition to its remarkable growth, however, the outstanding feature of Canada-Japan trade is a strong balance in Canada's favour. In 1969 Canadian exports to Japan amounted to \$625 million, and imports were valued at \$496 million.

It has been indicated to the committee that the Japanese will wish to reduce this deficit. Referring to this subject the Minister of Finance said that their exports to Canada have high manufactured content while our exports there are of the raw or semi-processed type. This is a typical case of it being illogical or unacceptable to ask for balance of trade between the two countries. Do you agree with that?

Mr. Pope: Yes, I do.

Senator Belisle: Will it be possible to maintain this large surplus in the future?

Mr. Pope: Yes, because I think the Japanese will continue to buy the raw materials where they can both procure them cheaply and be assured of sources of supply.

Senator Carter: The statement is contained in the brief that contrasting Japanese relationship with Canada and with the United States any decision with respect to Canada would depend on the bargain Japan could make with the USA. Does that not contradict what you have just said, because Japan is dependent, all her trade is dependent on raw materials; she cannot obtain raw materials from the United States.

Mr. Pope: No, I think I said when I was reading this that the trade between Japan and Canada is similar on the Japanese export side to the trade with the United States. I did not mean to imply that the import side from Canada and the United States is almost similar. I did mean to say that problems such as those now affecting man-made fibres weigh upon Canada and the United States in the same way.

However, since the United States is a much larger purchaser of Japanese man-made fibres and textiles it is clear that the effect of a concession made to Canada, which would then also have to be made to the United States, would be much greater than if the effect could be limited to Canada. In other words, the Japanese will first negotiate with the Americans and give us exactly what they gave the Americans; sometimes less; never more.

Senator Carrier: That is with respect to manufactured goods?

Mr. Pope: Yes.

Senator Grosart: Mr. Pope, you spoke of Taiwan, and you used the word "threat" in connection with the Japanese position vis-à-vis Taiwan. It is your view that the Japanese still want Taiwan back?

Mr. Pope: Did I use the word "threat"?

Senator Grosart: Yes.

Mr. Pope: The Japanese threat to Taiwan, did I say?

Senator Grosart: No. You used "threat" in that connection and I was not clear. I think what you said was that the Canadian recognition of Red China might have a negative effect.

The Chairman: That is correct. You can pick it up at page 3.

Senator Grosart: You did use the word "threat" but I am not sure where it was. It may be I am taking it out of context. However, I did get the impression that you felt the Japanese were very much concerned about the political future of Taiwan.

Mr. Pope: Yes, they are, for three reasons. One is that they have a sizeable investment in Taiwan. Secondly, trade with Taiwan was until last year almost as great as their trade with China. Trade with China had stagnated since 1965. It has now begun to rise again, but until it began to rise last year the trade with Taiwan was equally as important to Japan as trade with China. The third reason is the strategic one. It may be a very old-fashioned conception of strategy, but the Japanese have convinced themselves that the loss of Taiwan to China would at least decrease the security Japan now derives from the American presence there, combined with the American presence in Okinawa and Korea.

Senator Grosart: So you are really saying that the Japanese would like the Americans to maintain their undertaking to defend Taiwan against mainland China?

Mr. Pope: Though they never said so explicitly, I am sure that is correct.

Senator Grosart: They have not said so explicitly? I think they have guaranteed it.

Mr. Pope: No, the Japanese have not said so explicitly.

Senator Grosari: But you think that is their feeling about Taiwan?

Mr. Pope: Yes.

Senator Grosart: What about Korea?

Mr. Pope: Korea is very much the same, because Japanese trade with Korea has now become increasingly important. It is a surplus trade area. It is becoming more important to Japanese investment. Also, if there is any strategic significance to Taiwan from the Japanese point of view, how much greater is the strategic significance of the peninsula of South Korea, which is much closer to the Japanese homeland than even Taiwan is?

Senator Grosart: Would you extend that thinking to Manchuria, on Manchoukwo?

Mr. Pope: That is finished; that is past history.

Senator Grosart: The Chinese think so anyway; they do not even like us using the word "Manchuria" any more; it is the three provinces of China. You made a significant statement, Mr. Pope, that it would be better for us if our whole trade pattern with Japan was as well thought out on the Canadian side as it is on the Japanese side. Why is it that the Japanese pattern is so much better thought out? Has it something to do with the large corporations? Is it state policy? Has the state more control of trade than we have in Canada?

Mr. Pope: It obviously has a great deal to do with the large trading corporations, and that itself is a reflection of Japanese psychology. There is a tradition of consultation between Japanese government, the civil service, and business in Japan, that we simply do not have there. Although this is eroding to a certain extent, the Japanese financial community do accept that Japan's broad goals should be set by the civil service.

Senator Grosart: You say "broad goals". This applies, of course, to Canada, and I suppose anywhere else in the world; the civil service sets broad goals, but nobody pays much attention.

Mr. Pope: They do in Japan.

Senator Grosart: In Japan?

Mr. Pope: Yes.

Senator Grosart: How do they make it stick? How does the civil service influence the enterprise decisions, business decisions?

Mr. Pope: Take a concete example. Let us assume that the Japanese government decides that its 91 per cent dependence on Saudi Arabian sources of oil is dangerous. It has decided it is dangerous, but it has not yet decided to do anything about it. It then decides to make a major investment in Alberta, forgetting the fact that Alberta oil, Alberta crude...

Senator Grosart: Excuse me, who is "it"?

Mr. Pope: The Japanese government.

Senator Grosart: The government, not the civil service?

Mr. Pope: The whole complex; the Japanese civil service, governmental, cabinet establishment. It decides that although Alberta crude is more expensive than Saudi Arabian crude, the investment should be made. It then goes to, let us say, Mitsubishi Oil; Mitsubishi Oil goes to see its bank, and along with Mitsubishi Shoji, the trading company, decides that this investment is wholly uneconomic and cannot be made. It then reports its refusal back to the government. Mitsubishi Bank, which is the centre of the Mitsubishi complex, will find it much more difficult next time it has to borrow from the Bank of Japan. Financing is always so tight in Japan, and the banks themselves are so dependent

upon Bank of Japan policy that any wish expressed by the government is always backed up by the ultimate threat of the Bank of Japan to reduce its co-operation with the banks. That is only one example.

Senator Grosart: It is a very alarming one in view of the fact that we are just setting up a Canadian Development Corporation. I will not ask you to comment on that because it would not be fair.

Senator Macnaughton: It might be very interesting though.

Senator Grosart: Yes.

Senator McNamara: Might I ask a supplementary question?

Senator Grosart: Please.

Senator McNamara: I have a little difficulty in phrasing this question, because I do not want to lead the witness. The preamble is that I have a belief from discussions I have had here and in other places that there is the feeling that the Canadian Government and Canadian business are not as aggressive in developing our trade with Japan, our total investment with Japan, as they have been in other countries. I hold the opinion-and I am wondering if there is substance to this view-that of all the nations in the world, there is a closer knit nationalist influence in Japan between trade, civil service, the government and the giant trading companies that makes it most difficult for foreign investment to develop in their country. They have a real "club" by bery close co-ordination between their government, civil service and the trading companies. Although they talk about the door being open, it is not actuelly open very much. They are more restrictive than probably any other country in the world. Is there substance to that view?

Mr. Pope: You at least, Senator McNamara, can never be accused of not having developed Canadian business aggressively in Japan, China or anywhere else in the Far East. I would like to pick up that point. When I gave my little example of the Mitsubishi complex being forced to make an investment in Canada that it might not otherwise make for economic reasons, that was putting in far too crude terms what could happen to Mitsubishi. It does not happen, and never would happen, that way, because there is, as Senator McNamara pointed out, a tradition of consultation and co-operation that has grown up over the years, and it never has been necessary to get down to this demonstration of naked power by the civil service or the Bank of Japan.

The Chairman: Mr. Pope, surely with the establishment as you describe it, the Mitsubishi Bank would have been in the action in the development of negotiations at a very early time. The fact of the ultimate threat would never occur, I suggest to you.

Mr. Pope: It would never occur!

The Chairman: The point is that there would be a cohesive flowing together of these various forces.

Senator Grosart: Mr. Pope, you referred to the late Foreign Minister Miki's suggestion of the Pacific rim grouping. That was, as I recall, in respect to development aid, was it not, or did it go beyond that?

Mr. Pope: Mr. Miki never really specified, with any degree of precision, what he was talking about. I would like to go beyond development aid and make this a governmental consultative body which could examine a whole range of questions. Mr. Miki spoke of development aid primarily, I think, because the establishment of a governmental body with an open-ended frame of reference might be resented by the countries of the area who are not members of this closed club.

Senator Grosart: So he was suggesting it as the donor country club?

Mr. Pope: Yes.

Senator Grosart: Just to get it started?

Mr. Pope: Yes.

Senator Grosart: Would not you say that in that area Canada is consulting fairly widely with other donor countries through the various consortia that have been set up? Do we need anything like this, in addition to the mechanisms we have now for consultations in our aid to, say, southeast Asia?

Mr. Pope: No, we probably do not. My suggestion is that we should examine whether we should take the Miki idea and expand it into other areas.

Senator Grosart: This would be a sort of ministerial committee?

Mr. Pope: Yes.

Senator Grosart: And would you limit it at the beginning to the donor countries?

Mr. Pope: Yes.

Senator Grosart: Why?

Mr. Pope: Numbers.

Senator Grosart: What advantage do you see in limiting the numbers?

Mr. Pope: I do not think that any body can remain very efficient if it takes in all the countries of the area. I agree with you that the criterion of simple donor country or developed country is a rather abritrary one. I also agree that it has political disadvantages.

Senator Grosart: Would you include Taiwan as a developed country?

Mr. Pope: No, I would not.

Senator Grosart: Some people would.

Mr. Pope: It is a highly developing country, but it is not yet a developed country, I believe.

Senator Connolly: You also exclude mainland China. Is this because of the philosophy there and because of the turmoil and unrest, because it has got problems of its own that will not allow it to lookout?

Mr. Pope: I think that one has to start from a certain basis of agreement between the members of this consultative grouping. I do not believe that the Peking government shares enough objectives with the United States, Japan, Canada, Australia and New Zealand to make it likely that it would be a very constructive member of the club.

Senator Robichaud: Mr. Pope, before I ask you any direct question, May I comment briefly on your statement, which was also noticed by Senator Grosart, when you say that the Canada-Japan ministerial committee met just twice since 1964, and the paper prepared by External Affairs says that since its first Tokyo meeting in 1963 the committee has met five times, alternately in Tokyo and Ottawa, the most recent meeting being in Tokyo in April, 1969. During that period of, say, seven years I believe that the two years of Expo, 1967 here in Canada and 1970 in Japan, it was quite difficult to have those regular ministerial meetings; but would you not admit also that even during this period there has been a number of meeting by individual ministers, both from the Japanese and the Canadian side?

Mr. Pope: Yes, and let me say that I think these individual meetings probably are more important than the full-fledged formal ministerial committee meetings. I suppose you are referring to Mr. Pepin's recent visit to Tokyo?

Senator Grosart: Yes, and Mr. Greene's.

Mr. Pope: Yes.

Senator Robichaud: Yes, I would be inclined to agree with you in relation to that, because I had occasion myself to be at a few of those meetings, both in Japan and here in Ottawa, and I think that one is more free to discuss problems than one would be at a more formal ministerial meeting. You stated earlier that very few Canadian manufacturing firms are represented in Japan. What would you consider the main reason for this situation? Would it be a lack of initiative or interest on the part of the Canadian manufacturers, or would it be the fact that they recognized difficulty for them to compete, pricewise, with Japanese finished goods? You referred, in making this remark, to the shipbuilding industry. I am inclined to agree with you that Canadians are certainly not in a position to compete with Japan when employees in Canadian shipyards—and I made this remark before are paid almost as much for one hour's work as the Japanese labourers are paid for a whole day. What would be the main reason, then, for Canadian manufacturing firms not having representation in Japan?

Mr. Pope: Generally speaking, Canadian business is not widely represented anywhere in the Far East. I have always been puzzled why this should be so. Perhaps, if my career in the foreign service had been in the trade commissioner service, I would have been able to develop

some ideas on why this has taken place, but it does remain a fact. The main Canadian presence in the Far East has always been a missionary presence. Since 1945 it has not been a business presence. I do not know why this is so.

Senator Robichaud: Would it be that the position of the governments of those countries may have some influence on this? Would it be possible, say, for Canadian representatives to act as freely in Japan as Japanese representatives may act in Canada?

Mr. Pope: There are a great many American firms represented in Japan, who do business against the same odds that would be encountered by Canadian manufacturers, and they do business successfully. Now, what there is in the Canadian businessman which makes him reluctant to move into the Japanese market...

Senator Grosart: Or any market?

Mr. Pope: ... is a mystery to me. I had a rather interesting experience this year when I was in Tokyo. A man came into my office and asked if Bankers Trust could do some trade financing of certain equipment that he was exporting, or thinking of exporting, to Japan. This is rather sophisticated computerized equipment for process control. It turned out that what had happened was that the Japanese had discovered this product somewhere in the United States, they had discovered that it was Canadian, and had brought the man out. He himself had never thought that there might be a market for his product in Japan. When he came to see us, the negotiations had almost gotten to the stage that the Japanese companies involved were going to be placing their initial orders. This is a market that could be worth between \$500,000 and \$1 million a year. It is a small company, nevertheless it is a useful market.

The Chairman: Did you make a loan?

Mr. Pope: They never came back to us.

The Chairman: This is interesting. Mr. Pope has been making quite a considerable point and yet they did not make a loan.

Mr. Pope: It may have gone to another bank.

Senator Robichaud: You mentioned that it was a small company. Would that be one of the reasons, that the company was too small to expand or to go to the trouble of looking to a far-away country like Japan for export?

Mr. Pope: Quite possibly, but then there are an awful lot of small United States companies that are examining the Japanese market. I know that because they happen to be customers of the Bankers Trust Company.

Senator Connolly (Ottawa West): Would you care to say in what areas of the economy are those American firms to which you referred that are doing business successfully in Japan? Are they in the service industry?

Mr. Pope: They are at the fringes of technology. They are in those areas where the United States has already a dominant lead, such as the computer industry or computer service industry.

Senator Grosart: They are not in the transistor field?

Mr. Pope: No, but they are in the integrated circuits field.

Senator Grosart: They are producing cheap American imitations of Japanese products.

Mr. Pope: That is right, but as soon as you get away from the kind of thing anybody can make and get into the rather more difficult products, products of a high technological content, then the Americans find that they have an advantage.

Senator Connolly (Ottawa West): Perhaps one of the reasons why Canadians are inhibited is that we may not have in Canada the range of products the Americans have that do interest the Japanese market.

Mr. Pope: That may be so.

Senator Connolly (Ottawa West): That is to say, there may be some products, but we do not have the range of products.

Mr. Pope: The manufacturer I had in mind, the man who came into my office, was in the computer application side of the service industry.

Senator Grosart: Would it not be so that, where Canadian firms have this kind of dominant lead in world markets, they too would appear in Japan? You make the point, Mr. Pope, that the American industrial presence and trade presence in Japan is largely where they are dominant in the field.

Mr. Pope: Yes.

Senator Grosart: And often that is where they have a world monopoly either through patents or through knowhow. Would that not apply in the same way to Canadians, where Canadians have the same position in the world markets? In other words, Canadians would be equally represented, proportionally, in the Japanese market.

Mr. Pope: Yes.

Senator Grosart: Examples of that would be the Salk vaccine and the cobalt bomb which we know are being used in Japan.

Mr. Pope: Yes.

Senator Cameron: Mr. Chairman, I wonder if another reason for the low posture of the Canadian businessman in Japan is an historical reason. Until very recently we did not know, realistically, that the Pacific existed. We looked instead to the Atlantic. However, in the last 10 to 15 years the picture has been changing and Canada has become suddenly awake to the fact that she is a Pacific

power. Is that not the psychology that has been behind the low posture Canada has had in the Far East until recently?

Mr. Pope: I think that is only accurate to a certain extent. You may speak of the hold China has, but Canada did have an extraordinary position in the Far East before the war. In that regard you will recall the evidence you heard from the Canadian Pacific when they appeared before you about two months ago. If they spoke to you of the days of the old Empresses, you would find that at that time Canada held a strong position in the Far East that for some reason she lost after the war.

Senator Grosart: The Canadian insurance companies were also strong in the Orient.

Mr. Pope: Canadian insurance companies are still there—in Hong Kong at any rate.

Senator Grosart: They were found all through the Far East at one time.

Senator Connolly (Ottawa West): But they are not in Japan.

Mr. Pope: I have never seen one in Japan, no.

Senator Connolly (Ottawa West): Are the Canadian banks in Japan?

Mr. Pope: The Canadian banks are represented in Japan, but they have a problem in that the Japanese insist on the principle of reciprocity. Therefore, until we find a way in Canada of admitting Japanese banks on an agency status or on a modified branch status, Canadian banks will not be permitted to open branches in Japan.

Senator Bélisle: Are there any in the U.S.A.?

Mr. Pope: Almost all Japanese banks are represented in New York in an agency status, which gives them all the advantages they are looking for in the New York market. They are also represented in Chicago and in California to a lesser extent through branches. As a result American branches can operate in Japan on a branch basis.

Senator Bélisle: Are they one or more?

Mr. Pope: Ten of the twelve largest American banks either have branches in Japan or have received permission to open branches, but, unfortunately, Bankers Trust Company, which is the seventh largest bank, has not yet received permission.

The Chairman: I do not think the analogy is quite accurate as between Canadian banks and American banks, because there is a dominance of state control over American banks. In other words, the state of New York, per se, can make a reciprocal arrangement with, in effect, the Japanese banks, and it is a stronger position that that bank will have vis-à-vis the federal government. On the other hand, here in Canada we have a federal Government presence which would have the ultimate responsibility.

Senator Macnaughton: On the same question, Mr. Pope, you spoke of United States firms doing business in Japan and you were implying that they were pretty good salesmen. But, in fact, the volume of business comes from subsidiary manufacturing companies, does it not?

Mr. Pope: In Japan?

Senator Macnaughton: In Japan, yes, from American principals.

Mr. Pope: Rather than from direct trade?

Senator Macnaughton: Rather than from direct trade, yes.

Mr. Pope: No. Obviously, there are exceptions, one being IBM, which has a manufacturing plant in Japan, and another being National Cash Register. But apart from those I would say the bulk of American exports to Japan is made up of goods produced in the United States and sold in Japan, sometimes by representative offices but not by manufacturing agencies.

Senator Macnaughton: Would you say anything about the stock market? It is pretty well controlled.

Mr. Pope: The Japanese stock market?

Senator Macnaughton: Would you say that the purchase of Japanese securities by Canadians or Americans is pretty well controlled?

Mr. Pope: Yes, it is.

The Chairman: Would you rephrase that question, senator?

Senator Macnaughton: I asked Mr. Pope if he could express an opinion on the Japanese stock market, in that I understand—I do not know—I understand that it is not that easy to go into the Japanese market, or the Tokyo market, and buy Japanese stocks.

The Chairman: Thank you.

Mr. Pope: There are two categories of Japanese stocks, depending upon the industry in which they are operating. In one category foreigners may buy up to only 20 per cent of the total equity outstanding. In the other category foreigners may buy up to 25 per cent. A number of Japanese stocks—the more popular stocks—are already at the 25 per cent limit.

Snator Macnaughton: With respect to the Japanese investment in Canada, particularly in the resource industries, have you anything to say about why they seem to go in for debt rather than for equity investment in Canada?

Mr. Pope: Do they? I did not know.

Senator Macnaughton: So I am told. Their chief investment is by way of debt rather than equity.

Mr. Pope: That is to say they will make loans to existing Canadian companies rather than buy the equity of that company?

Senator Macnaughton: That is right.

Mr. Pope: I do not know, because I would have thought that the Japanese would have appreciated the control that goes along with the purchase of the equity of the company.

In Japan, as you no doubt know, the equity-debt ratio is usually horrifyingly small—or rather, the debt-equity ratio is horrifyingly great by the standards of Canada and the United States. I do not know why they should transfer this philosophy over to a completely foreign environment.

Senator Macnaughton: Thank you very much.

Senator Pearson: Mr. Pope, is there any reciprocal student scholarship arrangement between Canada and Japan? I understand that a number of Japanese students come here under scholarship schemes and are able to study in Canada. Have we a reciprocal arrangement for sending students back to Japan, or do we send any students to Japan at all?

Mr. Pope: I believe there are a limited number of Japanese government scholarships for Canadians.

Senator Pearson: Are they made use of at all?

Mr. Pope: I wish I could answer your question with greater knowledge, senator, but I was not in that end of the embassy, and it has been two years.

Senator Pearson: Referring to inflation, do they have inflation in a country like Japan whose economy is expanding so rapidly?

Mr. Pope: That is an interesting question which I think points up one of the dangers for the future, one of the clouds on the horizon for Japan. Until very recently Japan was able to live with A rate of consumer inflation in the order of five or six per cent. It was able to do so without becoming involved in a runaway wholesale price increase or in a runaway increase in the export goods price index, largely because there was a great deal of untapped productivity which could be brought to bear in the more advanced sectors of the economy. In the last two years, however, the Japanese seem to be getting involved in a cost-push type of inflation. As a result, the wholesale price index has been rising at a rate of about 4 or 5 per cent a year, and the export price index has also been rising at a rate of 3 or 4 per cent per year.

Senator Pearson: Is that cost-push due to labour push for increased wages?

Mr. Pope: Yes, and at the same time the consumer price index has been accelerating at a rate of 7 or 8 per cent per year. There are many theories as to why this should have taken place. One is that the enormous gains in productivity which were normal during the sixties are going to be much more difficult to achieve as the economy matures. The second reason usually given is the growing labour shortage which is going to make it increasingly difficult for the Japanese to find the skilled labour necessary to feed the continuing expansion of their advanced industry.

Senator Pearson: Do they draw any labour from Korea or Taiwan?

Mr. Pope: There is no labour actually imported. What they do is that they export certain processes of the manufacturing stages. That is to say that if a television chassis is partly manufactured in Korea, it is then reexported to Japan and finished in Japan.

Senator Pearson: Then I come to my next question; here you have four large nations consisting of Australia and Canada which are primary producers and Japan and the United States which are the sophisticated nations of mass production, etcetera. Is there any chance of a common market being formed among these four?

Mr. Pope: This is again an idea which was behind the original Miki proposal. On a number of occasions three or four years ago the Japanese would ask me why we were so frightened of the possibility of a free trade market that would include Japan, the United States, Australia and New Zealand, to which my reply was that we have spent 100 years trying to keep away from the economic advantages that will flow to the United States from free trade between the United States and Canada, so why should we let the Japanese in and compound the problem? I think the idea of free trade between Japan on the one hand and Canada and the United States on the other would carry a great many problems that the Department of Trade and Industry would probably prefer to avoid.

Senator Macnaughton: If Great Britain goes into European Common Market, what do you think will happen to the New Zealand and Australian trade?

Mr. Pope: You are looking now at an area that is totally outside my area of expertise.

Senator Macnaughton: It is outside my area too.

Senator McNamara: I think Senator Macnaughton is referring to the trade with Japan.

The Chairman: With the elimination of the established markets.

Mr. Pope: Japan's trade with Australia already is a very important part of the total Australian trade. I think Australia's trade with Japan is between 25 per cent and 30 per cent of his total trade, so that there has already been a shift in Australian thinking away from trade with Great Britain towards trade with Japan. This has not yet taken place in New Zealand where I believe their total trade with Japan amounts to only 12 per cent of their overall trade. I imagine that in the case of New Zealand the adjustment would be far more difficult and far more tramautic.

Senator Pearson: Is Australian trade with Japan greater than ours?

Mr. Pope: Considerably.

Senator Grosart: As a percentage or as an absolute figure?

Mr. Pope: As a total figure—in absolute terms.

Senator Grosart: More than \$1 billion?

Mr. Pope: \$1.5 billion. That is very rough guess.

Senator Robichaud: Mr. Pope, it has often been said that our trade not only with Japan but with that entire area has been handicapped through the lack of shipping and port facilities at Vancouver. What effect will it have if the facilities at Vancouver are improved? They are being improved at the moment, in fact. But would it help our trade with Japan to a large extent?

Mr. Pope: I had never really heard that there were bottlenecks at Vancouver which affected it.

Senator Robichaud: It has been mentioned quite often that there have been bottlenecks and lack of proper facilities.

Mr. Pope: I am sorry, I misunderstood you; I thought you were talking about the trade in general. If you are talking about the creation of special port facilities for the coal trade, you are quite right.

Senator Robichaud: And wheat?

Mr. Pope: Senator McNamara?

Senator McNamara: We could do with more port facilities for our wheat.

Mr. Pope: Would this lead to a price differential that would encourage the Japanese to buy more?

Senator McNamara: No.

Mr. Pope: Do the Japanese not buy primarily on price, and secondarily on delivery?

Senator McNamara: No. There are two phases involved here; you have to be competitive but you have to meet other criteria as well.

There is another point I wished to make in reply to Senator Robichaud, and this is probably outside of the area of Japan, but it deals with the other matters of developing the facilities in Vancouver. We do not have enough facilities to handle the volume or the anticipated volume out of that port. I am referring now to both rail and port facilities.

Senator Connolly (Ottawa West): Mr. Pope, I was very interested in what you had to say about the enormous purchases of raw materials around the world by the Japanese. Of course, I would imagine that the great bulk of the trade moving from Canada to Japan is in that field of raw materials. I have heard the opinion expressed that the Japanese are making so many long-term contracts and are committing themselves to such an enormous extent to purchase raw materials from various countries—not only Canada, but Australia and probably some of the African countries too, and elsewhere—that there may be a real danger that some day this "house" may collapse and that some of these commitments will not be able to be honoured. Would you say that there is, perhaps at present, not a real danger, but that there is

cautionary note that should be injected into the further development of this kind of business on the part of Canadian?

Mr. Pope: First of all, I think that the contracts that the Japanese have entered into reflect a fairly solid analysis by the Japanese of their needs over the next five to ten years.

Having said that, I agree with you that the Japanese seem to have convinced themselves, as well as everybody else, that the sky is the limit. Seven years ago there were American banks who were so concerned about the future of Japan and its balance of payments difficulties that they were pulling lines to Japanese banks. Seven years later we have developed the idea that the Japanese have found the secret—we do not know what that secret is, but the Japanese have found it. The pendulum has swung fully over to the other side, and I think that even the Japanese themselves would agree that this is not a particularly healthy state of affairs.

There are problems on the Japanese horizon. One of them is the question of rising labour costs, of which I spoke earlier. If the Japanese are going to lose their competitive price advantage, which they benefitted from during the sixties, then they may find themselves in chronic balance of payments difficulties which were a feature of the fifties and the early sixties. In other words, I definitely do agree with you, Senator Connolly, that the future is not wholly assured, and that the Japanese economy may find it has some of the problems of a mature economy by the second half of the present decade.

The Chairman: I do not want to keep you here too long, Mr. Pope—it has been an hour and a half already—but I would like to ask a question because it is in your present field. Would you give an opinion as to whether or not there is a good prospect of the revaluation of the yen?

Mr. Pope: There is clearly a very good prospect of the revaluation of the yen. The trouble is that the revaluation of the yen would involve Japanese companies in a great deal of difficulty. I am thinking, in particular, of companies such as the Mitsibushi Heavy Industries which has long-term ship contracts denominated in dollars. Mitsibushi Heavy Industries' long-term ship contracts, the last time I looked at their balance sheet, were something of the order of \$400 million. Even Mitsibushi Heavy Industries, assuming a revaluation of 10 per cent, would be somewhat shaken by a \$40 million write-off. So I think that the Japanese will wish to proceed very slowly in the question of revaluation and revalue only when they are certain that their real foreign exchange reserves provide a sufficient cushion that they will be able to bear the shocks of, say, a declining trade balance over a two-year period. I do not see revaluation before two years from now.

The Chairman: And your point of view, of course, would be influenced by the input of your consideration of the value of the American dollar.

Mr. Pope: Yes.

The Chairman: In relative terms, then, you are saying that you do not see revaluation of the yen for two years.

Mr. Pope: Not for two years—but, wait, there is one caveat. I think the Japanese yen got away with the last German revaluation without any difficulties. It might get away with one more Deutschemark revaluation, but it will not get away with a third.

The Chairman: Having come to that conclusion, I have been reading recently, and maybe some others have, that today there is a recession in Japan? Would you agree?

Mr. Pope: "Recession" is a relative word in Japan. Yes, I think there is a serious recession in Japan, and I think it is even possible that real growth next year will dip below 10 per cent.

Senator Grosart: That is recession?

The Chairman: That is a recession in Japanese terms.

Senator Carter: There is one statement here. I am not very bright today and I wish you would enlarge on it for me. On page 6, the fourth line down, you state:

I wish I were certain this sentence had been written on the basis of a detailed study, to ensure that we are in fact talking of the development and not the depletion of a Canadian resource;—

That sounds a slightly negative note in my ear. Would you care to elaborate on it?

Mr. Pope: The Japanese ideal—and this is not criticism of the Japanese—is to send a steam shovel built in Japan, in a Japanese bottom, to Canada; ship it—all right—on a Canadian railroad to the mining site; put one Canadian at the controls; dig up the real estate; ship it out in Japanese bottoms to Japan—the minimum of Canadian participation, the minimum of Canadian value added. This is not, in my view, very advantageous to Canada. I agree it is very advantageous to Japan.

Senator Carter: It may not be advantageous, but the provinces concerned seem to be quite eager to get it.

Mr. Pope: I sometimes wonder why some of those provinces are so eager to get it. I believe Mr. Bennett is quite hard hearted on the question of processing in Canada, is he not?

Senator Grosart: He is talking about it.

Mr. Pope: Well, talking about it is a first stage.

Senator Grosart: On that point, perhaps the most fundamental suggestion you make, Mr. Pope, is that under certain circumstances a resource nation such as Canada should allow resources to lie idle. I think that is your phrase. Do you know of an instance anywhere in the world, at any time, where a country has said, "We will allow resources to lie idle rather than allow them to be exploited in the "worse possible manner"? Have you heard of one, where any nation has said, "All right, we will allow them to lie idle"?

Mr. Pope: Yes, sir, I think I do know of one. Does the British Columbia Government not have very strict standards on the degree of processing that must be applied to logs before they are allowed to be exported?

Senator Grosart: No, this is not my question. That is the second of the three alternatives.

Mr. Pope: But the alternative is that if the Japanese refuse to buy that log in a semi-finished state, it does not get it at all, and the result then will be that this tree will continue to grow in the forest.

Senator Grosart: That is not the kind of resource I am referring to, because that is a resource that will appreciate normally in time. To make my question specific: Would you include coal, British Columbia coal—which was once exploited in Canada and used—that has been lying idele for years and has absolutely no future? Would you put that in the class of a resource that should be allowed to lie idle, if we cannot somehow get some processing of coal?

Mr. Pope: Coal is not a highly processable resource. In the case of coal I would not suggest that the resource should be allowed to lie idle.

Senator Grosart: What about iron ore?

Mr. Pope: Senator Grosart, you are coming closer to the area where I think we might envisage a resources policy that would include the possibility of having our resources lie idle. When we speak of copper we are very much in that area.

Senator Grosart: As well as asbestos and nickel.

Mr. Pope: Yes. Copper is possibly not a very good example because there is a great deal of foreign competition. In the case of Japan, there is Australian and Phillipino competition.

The Chairman: The best example is nickel...

Senator Grosart: Nickel and asbestos.

The Chairman: ...of which we have the world's largest supply.

Senator Grosart: This raises the question: Is it possible that the Canadian public who are vitally concerned would stand for iron ore being allowed to lie idle, and to see it exported from Australia to Japan? That possibly is not a question that I should ask you.

The Chairman: I think we are getting a little beyond our subject.

Senator Carter: Mr. Pope, on page 2 you say that what we should be trying to do is to find out where Japan is important to Canada, and where Canada is important to Japan. You say later on that Canada does not figure very

importantly in Japan's foreign policy-making. Is there an area here where we can bargain? Do we have any bargaining position in Japan?

Mr. Pope: Yes, I think we do, in the area about which Senator Grosart was talking, which is the area of trade. In those areas where we have a monopoly, such as in the case of asbestos and nickel, I think we should take a fairly tough position with the Japanese. We should explain to them that if they want resources in which we have a monopoly, they will have to make a certain contribution to the actual development of that resource, and to the creation of jobs for Canadians. This applies not only to Japan but to any purchaser of Canadian resources.

Senator Grosart: But you said we would never get more from them than the Americans.

The Chairman: I want to make it clear, and to have it on the record, that this is a present-day known monopoly.

Senator Grosart: We are using the word "monopoly" in a very wide sense. It is not really a monopoly.

Mr. Pope: As soon as the Marandugue Mine in the Philippines comes into production, for example...

Senator Grosart: And in Australia too, where they have found asbestos.

The Chairman: There is a lot of lateritic nickel in New Caledonia.

Senator Belisle: As a supplementary to your question on the revaluation of the yen, in 1963 I read the Dumbarton Oaks Agreement, in relation to the international monetary fund. Do they belong to the IMF?

Mr. Pope: Yes, definitely.

The Chairman: Before terminating the meeting I wish to announce that on Thursday at 11 o'clock the Standing Committee of the House of Commons on External Affairs and National Defence will meet in Room 200, West Block, the Confederation Room—a notice will be circulated to that effect—to hear a report from Mr. Yvon Beaulne, Canada's permanent delegate to the United Nations. The chairman of that committee has invited members of the Senate Committee on Foreign Affairs to attend and participate.

There is another matter of business. Committee members may recall that when we had the CPR before us there was a question as to the ships lost during the war. I have now received a letter, together with schedules, from Mr. Joplin of the CPR, which I will have circulated to the members of the committee.

Thank you very much, Mr. Pope. This has been a very stimulating afternoon.

The committee adjourned.

APPENDIX "I"

JAPAN

1. General Facts

- (a) Area—369,662 sq. km. or 142,338 sq. mi.
- (b) Population-103 million
- (c) Economic Data

Gross National Product— U.S. \$174.2 billion (1969) Gross Domestic Product—U.S. \$136.9 billion (1969) Per capita Income— U.S. \$1,335 (1969)

Exports— U.S. \$16.7 billion (1969) Imports— U.S. \$14.5 billion (1969)

z. Canada's Relations with Japan

Although trade and economic interests provide the strongest link between the two countries, Japan and Canada share many other common interests as neighbours across the Pacific, both with highly developed economies and industrious, highly literate and technically educated populations.

Japan was the third country with which Canada established diplomatic relations with the opening of a Legation in Tokyo in 1929. Diplomatic relations were severed with the entry of Japan into World War II in 1941, but were re-established shortly after Japan regained its sovereignty in 1952.

The present Canadian Ambassador to Japan, His Excellency H. O. Moran, resident in Tokyo since 1966, is a former Director-General of Canada's External Aid Office and a former High Commissioner to Pakistan. The Japanese Ambassador to Canada, His Excellency Shinyichi Kondo, was formerly Assistant Vice Minister of Foreign Affairs in the Japanese Foreign Ministry and had served in Ottawa on an earlier posting.

(a) Political Relations-

Canada's interests in Japan cover virtually the whole range of subjects normally arising between developed countries with substantial political, commercial and other ties. Japan is overwhelmingly the major power in the Far East with a growing role in the political affairs of Southeast Asia and is a natural counterbalance to China. Japan's dynamic economy (second largest in the non-Communist world and expanding at an adjusted rate of 14 percent per annum) and increasing importance as a source of development assistance make it clearly in Canada's interest to maintain close and friendly relations, and to maintain and if possible strengthen Japan's pro-Western foreign policy and its democratic political structure.

Japanese foreign policy has undergone a substantial transformation in recent years. The "low posture" which characterized Japan's external activity in the post-war years has been largely discarded. Japanese foreign policy will doubtless continue to have a high economic content but the Japanese have served notice that they intend to play an active role in Asia with policies that will serve both their economic and political interests.

The whole range of bilateral and multilateral questions of interest to Canada and Japan are reviewed at meetings of the Canada-Japan Ministerial Committee, consisting of five Ministers from each country. (On the Japanese side it comprises the Ministers of Foreign Affairs, Finance, International Trade and Industry, Agriculture and Fisheries, and the Economic Planning Agency; the Canadian members are the Secretary of State for External Affairs and the Ministers of Industry, Trade and Commerce; Finance; Fisheries and Forestry; and Agriculture.) This committee was established during the visit to Canada in June 1961 by the then Japanese Prime Minister, Hayato Ikeda. The late Mr. Ikeda and former Prime Minister Diefenbaker agreed at that time "that in view of the increasing importance of Canadian-Japanese relations, there should be established a Canadian-Japanese Ministerial Committee which would not be a negotiating body but would provide a valuable means of contact between Ministers of the two countries."

Since its first Tokyo meeting in 1963, the Committee has met five times alternately in Tokyo and Ottawa, most recently in Tokyo in April 1969. It has fully lived up to the intention of Mr. Ikeda and Mr. Diefenbaker in enabling Ministers of the two countries to establish personal contact and become familiar with one another's views on a wide range of questions. The list of subjects discussed at the last meeting serves to illustrate the breadth of common interests between the two governments. Subjects which were discussed in a friendly and open manner between Canadian and Japanese Ministers and officials at that last meeting included the international situation with specific reference to Asia and the Pacific area, nuclear disarmament and the Non-Proliferation Treaty, bilateral air relations, atomis energy, the possibility for scientific and technological exchanges between Canada and Japan, means of co-operation on problems related to Pacific fisheries, and development aid to less developed countries, particularly in Southeast Asia. A major part of the discussion at the two-day meeting focussed, of course, on the world economic situation with specific reference to problem areas in Japan-Canada trade and investment.

This Committee is now firmly established as one of the major institutional links between the two governments and reinforces the regular contacts between the respective embassies and through other official channels. In addition to their bilateral relations Japan and Canada share many interests in common as responsible members of the international community. At the United Nations both countries have served in recent years on the Security Council and have taken a particular interest in subjects such as disarmament where both are members of the Committee of the Conference on Disarmament.

Less officially, a considerable number of Japanese students are studying in Canada, mainly at the post-graduate level, and each year a number of Japanese scientists are awarded post-doctoral research fellowships by the National Research Council of Canada. Canadian scientists

also visit Japan frequently to attend conferences and hold discussions with their Japanese counterparts in fields where Canada and Japan share special knowledge or expertise.

A programme for training a small number of Japanese farmers in Canada was inaugurated in 1957 at the request of the Japanese government. The programme affords the trainees an opportunity to acquire and later disseminate in Japan knowledge of the special techniques of Canadian agriculture, particularly in dairy and livestock production.

Japanese agricultural scientists have also worked as post-doctoral exchange fellows at the Grain Research Laboratory of the Board of Grain Commissioners in Winnipeg through scholarships provided by the National Research Council of Canada and the Canadian Wheat Board.

There have been exchanges in non-scientific fields as well, an and it is hoped that these will continue. The Japanese Government each year offers two scholarships to Canadian students for study at Japanese universities under the Ministry of Education scholarship programme. In the field or performing arts the brilliant young Japanese conductor, Seiji Ozawa, conducted the Toronto Symphony Orchestra from 1966-69 and led the orchestra on a triumphant tour of Japan in April 1969. Yosuf Karsh, the Canadian photographer recently toured the major cities of Japan with a selection of his Portraits of Great-

Expo '70 provided Canada with a unique opportunity to send to Japan a sampling of some of the best of its varied cultural groups such as "Les Feux Follets", the Canadian National Ballet, the Montreal Symphony Orchestra, the Charlottetown cast of the musical adapted from the well-known Canadian novel "Anne of Green Gables" (the novel is read by many Japanese school children at the primary school level), the RCMP Band and Musical Ride, folksingers Ian and Sylvia, Gilles Vigneault and many pop/rock groups. The Canadian Government participation at this first world's fair ever held in Asia was considered to be an overwhelming success. Public opinion polls generally rated the Canadian pavilion as one of the three or four most interesting at Expo and the pavilion itself was awarded first prize for design by the Japanese Institute of Architects. The Federal Government participation (which was budgeted at \$11.2 million) was complemented by separate participation by the provinces of British Columbia, Ontario and Quebec, each with their own pavilion.

Canada's participation at Expo '70 was highlighted by the visit of the Prime Minister who visited Japan May 25-29 as a guest of the Japanese Government to officiate at the Canada Day celebration at Expo. This was only the second official visit to Japan by a Canadian Prime Minister. In addition to officiating at the Canada Day celebrations Mr. Trudeau met with Prime Minister Sato for a discussion of questions of mutual interest (particularly Canada's China policy, the strategic situation in

Indochina and questions relating to Canada Japanese trade), and with Japanese industrial leaders, sportsmen, artists and religious leaders.

(b) Economic and Commercial Relations-

Japan's increasingly active foreign policy reflects the country's remarkable economic growth. During 1970 Japan's Gross National Product is expected to exceed \$200 billion, second largest in the non-Communist world after the USA and significantly ahead of Germany which it surpassed in 1968.

Trade naturally serves as one of the strongest links between Japan and Canada, two countries with highly complementary economies, which are among the world's leading trading nations. Japan now ranks as Canada's third most important trading partner after the United States and Britain, and Canada has been Japan's third most important supplier after the United States and Australia. Bilateral trade between the two countries has grown from \$132 million in 1953 (the year before Japan's accession to the GATT and the signing of the Canada-Japan Trade Agreement) to more than \$1,100 million in 1969. Canadian exports to Japan amounted to \$625 million and imports were valued at \$496 million in 1969.

A wide range of metals and minerals together with cereals and forest products have traditionally led Canada's exports to Japan. In 1969 less than 5 per cent of the total consisted of fully manufactured or finished goods; in contrast, during the same period more than 90 per cent of Japanese exports to Canada were finished goods. The most important items Japan sells to Canada are motor vehicles including motorcycles, television and radio sets, tape recorders, commercial communication equipment, sheet metal, pipes, tubes and fittings, toys, sewing machines and textiles of all types. By agreement between the two governments shipments of certain Japanese goods have been subject to voluntary limitation to avoid disruption of the Canadian market and enable Canadian manufacturers to adjust their production to other lines. The number of items subject to such restraints has been reduced in recent years and the arrangements now cover only certain textiles.

In recent years important long-term contracts have been signed between Canadian suppliers and Japanese industry for the supply of Canadian coking coal and uranium to provide much needed energy to Japan's industrial and private sectors. Long-term contracts for the supply of coking coal to the Japanese steel industry were the basis for a large increase in output in the mines of Western Canada and over the next 15 years will result in the sale to Japan of as much as two billion dollars worth of coal. Two such contracts covering shipment of coal from the Crow's Nest Pass area of British Columbia and from Coleman, Alberta, were primarily responsible for the construction of a new deep-water Pacific port at Robert's Bank, just south of Vancouver.

Additional new large-scale purchases by Japanese industry of coal and copper concentrate will mean that the volume of dry cargo moving through the Port of Vancouver itself will double and possibly treble over the next five years. Vancouver has recently become Canada's leading port in terms of tonnage shipped, largely because of Canada's rapidly increasing trade with Japan. Vancouver's new container facilities currently under construction are designed to handle up to 20,000 container units per year. Indeed, there has been some speculation that Canada may at some future date serve as a "land bridge" for containerized trade between Japan and other Asian countries and Europe. Further east in Alberta a contract for the supply of two million tons per year from the Smokey River region has resulted in the construction of a new Resources Railway and the building of the new town of Grande Cache, Alberta.

Other important bulk commodities being exported or to be exported from Western Canada to Japan under long-term contracts are copper concentrates from British Columbia and Manitoba, potash from Saskatchewan, wood pulp, newsprint and lumber from British Columbia, and, of course, wheat and oil seeds from the three Canadian prairie provinces. Consideration is being given to the construction of slurry pipelines, designed to carry dry bulk commodities such as potash from the prairies to Canada's west coast ports.

It is not only the western part of Canada which is sharing in the rapidly expanding trade with Japan. In 1969 the first contract was concluded for the sale of pelletized iron ore from the Quebec/Labrador region to Japan's steel mills and copper is already the Province of Quebec's leading export product to Japan; uranium oxide from Ontario is also being shipped to Japan under long term contracts.

As two of the world's leading trading nations, Canada and Japan share a common interest in the orderly, well managed exchange of goods and services. Canada strongly supported the General Agreement on Tariffs and Trade (GATT) which came into force in 1948 and supported Japan's entry as a full member in 1954. Since that time, Canada and Japan have co-operated in the move toward freer world trade under the auspices of the General Agreement. The two countries have also carried out frequent consultations on matters of bilateral concern such as the restraint programme and the maintenance by Japan of certain quantitative restrictions against imports. Canada has a particular interest in seeing a reduction in these restrictions as many of them cover agricultural items and other products which Canadians believe they could market competitively in Japan.

Japanese and Canadian businessmen have co-operated with those of the other economically developed countries of the region in forming the Pacific Basic Economic Co-operation Committee. The aim of this body is to promote economic collaboration among the member countries—including expansion of trade and investment, exchange of industrial technology, promotion of tourism, joint studies, and promotion of cultural and scientific exchange. The member organizations have also joined in establishing the Private Investment Company of Asia

(PICA) which provides capital and technical assistance to developing countries in Southeast Asia. In addition to this broad grouping there are also regular institutionalized exchanges between members of the Canadian Manufacturers Association and the Canadian Chamber of Commerce with their Japanese counterparts—Keidanren, Japan Chamber of Commerce and Industry, Japan Foreign Trade Council and Japan Committee for Economic Development.

Problems in the commercial relations between the two countries have to do with: (a) the concentration of Canadian exports in raw and semi-finished goods which create far fewer jobs for Canadian workers than Japanese exports to Canada create for Japanese, and (b) the voluntary restraints system by which the Japanese agree to limit exports of certain goods in order to avoid disruption of the Canadian market. While these restraints are unpopular with the Japanese, they are aware that they are much milder than the restrictions applied by most other developed countries on imports of sensitive Japanese products. The restraints Japan applies in Canada's case cover a small and declining share of their exports and on all other manufactured items they have unrestricted and quota-free access. This is in sharp contrast to the numerous quotas and other restrictive practices our exporters encounter in Japan.

For a variety of reasons there has until recently been relatively little direct investment between Japan and Canada. The economies of both countries have been expanding since the war at a rapid rate and neither has had large amounts of surplus capital for foreign investment. In addition, the Japanese Government closely controls the amount and type of foreign investment in Japanese industries and the amount and type of Japanese investment in foreign countries, and this has had a dampening effect on potential investment flows between the two countries.

The book value of Japanese investment in Canada at the end of 1969 was estimated at \$110 million, but there are indications that this amount will increase considerably in the next few years. Japanese investment in Canada has to date been focussed primarily on the extractive resource industries such as copper, pulp and paper, potash, petroleum and coal, but there has also been Japanese involvement in a steel wire plant in Vancouver, and a motor car assembly plant in Nova Scotia where Isuzu and Toyota automobiles are being assembled for the North American market.

Only eight Canada-based companies have direct investments in Japan and these are all in joint ventures with Japanese companies. The better known companies are Alcan, Comico, Inco, The Moore Corporation and Emco.

Because of the structure of Canadian business it is unlikely that Canadian firms will ever have a really important role in the Japanese economy; it is to be hoped, however, that as Japan proceeds to carry out its commitments to liberalize foreign investment more Canadian companies will find it possible to establish operations in the Japanese market, to the mutual benefit of both countries.

(c) Aid--

Canada-Japan Co-operation in Economic Assistance Japan participates actively with Canada in international fora such as the DAC, UN, UNCTAD, and the IBRD. In other aid and development activities, Canadian and Japanese interests are closest in four main areas. These are the Asian Development Bank, the Colombo Plan, the Mekong Committee and the United Nations Development Programme.

Canada and Japan are founding members of the Asian Development Bank (ADB). Of the original subscription of \$1 billion Japan contributed \$200 million; Canada \$25 million. Since the Bank's inauguration in 1966 there has been a close association of the two countries through membership in the Board of Directors. In the ADB Japan and Canada have been the two largest contributors to the Special Funds (\$30 million over 2 years for Japan as compared with \$25 million over 5 years for Canada).

Canada and Japan are both members of the Colombo Plan and in the annual meetings of the Consultative Committee both are active in the promotion and discussion of co-operative economic assistance policies. The annual meeting provides a very useful and informal opportunity both for officials to discuss mutual problems in the aid field and for Ministers to discuss in largely unrecorded sessions the more pressing problems of the Colombo Plan area.

Canada and Japan are major contributors to the United Nations Development Programme (UNDP). For 1970 Canada ranks fourth at US \$15 million and Japan tenth at US \$4 million and both have been members of the Governing Council since its inception. This association provides opportunities for consultation and co-operation in an important multilateral development effort.

The Mekong Committee was set up under the auspices of the Economic Commission for Asia and the Far East (ECAFE) and aims at the comprehensive development of the water resources of the lower Mekong Basin. Canada and Japan have been major contributors to the work of the Mekong Committee and are closely associated in the construction of two major projects, the Nam Ngum Power and Irrigation Project in Laos and the Prek Thnot Power and Irrigation Project in Cambodia.

Total Japanese aid flows for the year 1969 amounted to .76 per cent of gross national product, or \$1263 million of which \$811 million was in the form of governmental assistance and \$452 million in private assistance. Private assistance consisted mainly in export credits (\$300 million)

lion) and direct investment (\$144 million). One conspicuous fact is that multilateral development assistance which was offered by the Government in such forms as investments in international agencies, nearly doubled to \$96 million. This is attributed to the investments in the ADB and The World Bank.

In 1969 Japan ranked fourth among member nations of the Development Assistance Committee (DAC) of the OECD in the amount of foreign aid after the United States, West Germany and France.

Japan's early initiatives in economic assistance were directed towards the promotion of regional co-operation in the Pacific area and Southeast Asia. The most outstanding example of this is the Asian Development Bank in which Japan has played an extremely prominent role and indeed where nearly all the key positions in the Bank are occupied by Japanese nationals. It appears Japan sees in the ADB an opportunity to play a strong and perhaps, over the longer term, dominant role which may lead to eventual political advantage in Southeast Asia.

Despite her economic power, Japan's ability to influence events and promote regional stability have been inhibited by her comparatively modest provision of grant aid and the "hard" terms on which development loans have been offered. Many Japanese officials claim that the OECD target of one percent of GNP devoted to foreign aid is unrealistic because Japan ranks nineteenth in the world in per capita income. On the other hand, as the only "developed" Asian country and with an embarrassingly high balance of payment surplus in recent years there have been heavy demands on Japan for additional development funds. As a result Japan has recently been quite forthcoming with short term funds for development purposes.

(d) Immigration-

Japanese immigration in the early part of this century made a vital contribution to the agricultural and industrial development of British Columbia.

In 1923 as a result of revision of the so-called Gentleman's Agreement between the two governments, the number of Japanese immigrants was limited to 150 per year; five years later the quota was made to include wives and children of Canadian residents. During World War II many Japanese-Canadians were interned and most were moved away from the West Coast and resettled across Canada; after the War the non-naturalized Japanese and many Japanese-Canadians were repatriated to Japan. There are now about 30,000 Japanese-Canadians scattered across the country, with the greatest concentrations in Toronto and Vancouver. In 1962, following a general revision of the Immigration Act and regulations, Japanese possessing training or skills in demand in

Canada became eligible for entry on the same basis as other immigrants. In 1965, in order to facilitate the entry of qualified Japanese, a visa office was opened in Tokyo and the volume of immigration doubled the following year. Because of Japan's current prosperity and the absence of population pressure due to the very low postwar birthrate, there is little demand for emigration.

The number of arrivals from Japan since 1965 is as follows:

1965	1966	1967	1968	1969	1970
209	509	930	693	766	(1st 7 mos.) 465





THIRD SESSION-TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 10

WEDNESDAY, FEBRUARY 24, 1971



Respecting

THE PACIFIC AREA

(Witness: - See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman
and

The Honourable Senators:

McElman Belisle McLean Cameron Carter McNamara Nichol Choquette Connolly (Ottawa West) O'Leary Croll Pearson Eudes Quart Rattenbury Fergusson Robichaud Gouin Sparrow Haig Lafond Sullivan White Laird Yuzyk—(30) Lang

Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative,

Robert Fortier Clek of the Senate

Minutes of Proceedings

Wednesday, February 24, 1971. (12)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 11.05 a.m. this day.

Present: The Honourable Senators Aird (Chairman), Carter, Connolly (Ottawa West), Eudes, Fergusson, Grosart, Haig, Lafond, Lang, Macnaughton, McLean, McNamara, Pearson, Rattenbury, Robichaud and Sparrow. (16)

Present but not of the Committee: The Honourable Senators Burchill and Petten. (2)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued study of the Pacific Area.

Witness:

Mr. Chester A. Ronning, Former Canadian High Commissioner.

On motion of Senator McNamara,

Ordered: That two papers entitled "The People's Republic of China" and "Taiwan", prepared for the information of this Committee by the Department of External Affairs, be appended to today's printed Proceedings (See Appendices "J" and "K").

At 1.06 p.m. the Committee adjourned to the call of the Chairman. $\,$

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, February 24, 1971.

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 11 a.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of 11 o'clock and I call the meeting to order. As we have progressed in our Pacific inquiry, I think all of us have found it increasingly important to try to understand more deeply the fascinating and complex societies of Pacific Asia.

Today's meeting has been planned with a view to better understanding China, and it would be very difficult to find a more expert guide than Mr. Chester Ronning, who needs no introduction because he is known throughout this country and much of the world as a Canadian with a unique grasp of China and that country's problems, perspectives and aspirations. However, because I think it is highly relevant in this instance, I would like to take the unusual step of recording some of the details of Mr. Ronning's remarkable career.

He was born in China—I hesitated a little bit about this, sir—one year after the birth of Mao Tse-tung. I thought I might say that you were almost a contemporary.

Mr. Chester A. Ronning: Contemporary, but not a fellow traveller.

The Chairman: Throughout much of the subsequent extraordinary period of Chinese history he has practically commuted between Canada and China. After serving in the Royal Flying Corps, Mr. Ronning taught school in Edmonton from 1919 to 1921. He then studied Chinese at the Peking Language School for a period, and returned to teach for four years at his birthplace in Hupeh. Returning to Alberta he served as princ pal of Camrose College from 1927 to 1942. After three years in the RCAF he went back to China, this time as a member of the Department of External Affairs. He was the First Secretary in the Embassy in the wartime capital of Chungking, and moved to Nanking in 1946. He was in that city, as Canadian Chargé d'Affaires, when the People's Republic of China came into existence in 1949, and he remained until 1951. Mr. Ronning was later appointed Ambassador to Norway, and in 1957 High Commissioner to India. In

1962 his special expertise was called upon again as head of the Canadian Delegation to the International Conference for the settlement of the Laos Question.

On behalf of the committee it is a great pleasure to welcome you, Mr. Ronning. I apologize to you for the delay of one hour in the commencement of the meeting, but this was unavoidable. We have asked you in your opening remarks to draw on your extensive experience and talk about some of the background factors essential to an understanding of contemporary China.

After your initial presentation, our members will proceed with questioning and Senator McNamara has agreed to lead off. I might say that in a brief informal meeting we had earlier I was advised not to call anyone an old China hand, but perhaps Senator McNamara will forgive me if I refer to him as the former chairman of the Canadian Wheat Board. It is for that reason that I am asking him to lead.

We are going to depart slightly from our usual procedure. Mr. Ronning has indicated that he has no notes, but he would like to speak for 40 or 45 minutes, which will take us to nearly midday. He tells me that he has no deadline and that his time is our time, but I feel that we should try for an adjournment at a quarter to one, and I would ask you, therefore, to be governed accordingly. I do not wish to cut anyone off if there are questions of interest, but I will try to spread the questioning around. At this time I would once again welcome you most sincerely.

Mr. Ronning: Mr. Chairman, and honourable senators, it is indeed an honour for me to be here. I was not sure whether I should say this, but I do deeply regard it as an honour to be able to talk to you. I was not quite certain whether this was sort of an inquisition or not, because I have just come from Washington and, as you know, the Senate there has a type of commission which delves into the background of foreign service officers particularly, and they even did it to one of our Canadian foreign service officers. I was wondering if some part of my dark past is going to be revealed here, but the chairman has assured me that nothing of this sort is intended. Therefore, I am going to relax and admit to you how I got into the Canadian foreign service.

No other person has succeeded in getting in by the door through which I came. It was like this: General Victor W. Odlum in 1945 was our ambassador in Chungking. He wanted a Canadian who could speak Chinese to come out and help him. The Department of External Affairs advertised for such a person. The first person to apply was sent to me because Hume Wrong, who was our Undersecretary of State for External Affairs at the time,

asked me if I would examine him in Chinese conversation. I replied that I certainly would be glad to. My report was that I found him wanting in his Chinese conversation. He could not carry on a conversation in Chinese. Later on a series of other applicants got exactly the same deal from me. Then VJ-Day came along and my work was finished, and Hume Wrong asked if I could go. I replied that I would go provided I could pass the examination. He authorized me to give the examination and so I did. This was the strangest experience I have had in my life, because I got the highest mark in that examination that I had ever received during the course of my school days. As a school teacher, I gave the highest mark that I have ever given a student and thus became a foreign service officer.

Perhaps before I go on I should tell you a story. This is for the purpose of softening you up for some of the controversial things which I am going to say. The people who knew me, and who invited me to come here, thought the only safe thing I could deal with would be the history of China. I am interested in the history of China only because of some of the controversial ideas which I have about China. Therefore, I am going to tell you this story.

I was on the Canadian delegation to the General Assembly in 1953. We were not in the Security Council, but I was asked to sit on the sidelines of the Security Council to report on the development of a topic in which the Canadian Government was interested. A young Canadian Foreign Service Officer sat beside me. He had just been accepted by External Affairs and was sent to the General Assembly of the U.N. to get some experience. During the course of the intermission a secretary of the Chinese delegation came over and talked to me about the subject, because he knew I was interested. When we finished our conversation the young Canadian Foreign Service Officer looked up at me and said "In what language were you speaking to that fellow?" I said, "Chinese." He asked, "Where did you learn Chinese?", and I replied: "At the breast of a Chinese woman." His eyes opened wide, and he said: "I knew that the Canadian Foreign Service was very glamorous, but I did not know it was all that glamorous. I have heard of American officers learning their Japanese that way, but I didn't know this was the way Canadian Foreign Service Officers learned foreign languages." I said, "Look, young man, don't get the wrong idea. I will take you to my hotel room and show you a picture of that dear woman holding me in her arms". The young officer said, "You dared to have a picture taken of it?"

At that time I did not have enough discretion to decide whether a picture should be taken of what I was doing or not. I was about the age of the two babies, one being a bottle baby and the other one not a bottle baby. The baby who was not a bottle baby said to the bottle baby: "You know, if I had my life to live over again I would want to be a bottle baby?." The other asked, "Why would you want to be a bottle baby?", to which the other baby replied, "I hate to have cigarette ashes falling into my eyes every time I have a meal." That was my age when I started learning Chinese.

With regard to the history of China, if I am going to cover ten millenniums of history—and that is what the Chinese have had but only four of them have been recorded—I shall have to rush right along in order to keep within the time limit.

Why should you be interested in the history of China, which has led up to the present developments? I would say for three reasons: One is that you have in China the only ancient civilization which has been kept intact politically, economically, socially, culturally and in every important aspect of civilization. It is the only ancient civilization which has been kept intact for ten millenniums or more down to the present time. Certain aspects of other civilizations have been perpetuated down to the present time, but China is the only one which has come through in all of these respects as an entity. It has therefore developed a tremendous tradition, and that tradition is today one of the most important determining factors in China's attempt to modernize. Some people have said that the reason it came through all these millenniums intact where others went by the board is because China is surrounded by desert on the northwest, oceans on the east and south and by mountains on the west. It is completely surrounded. Being completely surrounded, it therefore has not been invaded and has not been subject to the incursions of barbarians which crushed other ancient civilizations. That is partly true, but not altogether. The Chinese have been overwhelmed by the Mongols; they were overwhelmed by the Manchus; they have been overwhelmed at times by Islamic forces. The Jews penetrated China. In the early days of Christianity the Nestorian Christians penetrated China. But for some reason or other the tradition, the strength, the vitality of this great civilization absorbed all of them and was perpetuated right down to the present time.

Why? Much more important than being surrounded by deserts, mountains and seas was the tradition out of which grew the system of government.

In an agricultural civilization, remember that when all the arable land is tilled young men who disagree with their elders are ostracized and cannot continue to exist. There is no place for them to plant seeds and reap grain to live. That is entirely unlike our hunting civilizations. When any one of our forefathers as a young man disagreed with his father and his father kicked him out of the home, he could go out, break off his own branch, kill his own animals and continue to live.

We have developed an individualism and we have been encouraged in rebellion by aspects of our system, because we do not need to knuckle under to society. But in China, if young people rebelled and were expelled, they were finished. The elders in the communities, however, feared rebellion more than anything else; they feared rebellion far more than any of our civilizations did, because if the young men rebelled there would be no one to do the work. So the elders of the communities sought to administer as wisely as possible. As a result, the wisest people, the most intelligent people, finally came up from the bottom to the top. Confucius was not the one who invented the system which enabled China to last through all these years. Confucius merely codified, described and

put this down in black and white. He described the system that had already been established long before his time. He merely put it down in such a form that it was passed on. And, of course, it was not only reaffirmed but became in some ways a little more sterile, because it became more rigid.

China is perhaps the only ancient civilization that did not have an aristocracy of blood or an aristocracy of wealth. China had an aristocracy of the intelligentsia. Of course, there was some corruption associated with this, and it was not always effective. But generally speaking there was this influx of new blood; the cobbler's son or the butcher's son could come to the top if he had the brains to pass the government examinations, which were very rigid. The only people who could get official positions were those capable of passing these examinations. That is perhaps the chief reason.

Another reason, of course, is ancestor worship, which was abused: you accept; you never dare to improve something that has already been perfected by your ancestors or by your parents, and this has had a detrimental effect. At the same time you had maintenance of law and order through the emperor, who had a mandate from Heaven. The Chinese are very pragmatic. In metaphysics there are some great Chinese philosophers like Lao-tse, for example. But metaphysics never got such a grip on the people of China as the pragmatic ethical type of philosophy.

The Chinese have always been interested in ideas. The strange thing is that today in their attempt to modernize, the Chinese are using Western ideas which are made practical for the situation in China. They call it the "People's Republic". Under the old system it was not the people; but the emperor who had the mandate of Heaven. But today it is the people that have the mandate of Heaven, and they call it a republic. In a republic the leaders are chosen. They may not have been much more successful than, or even as successful as, we have been. Even our system of democracy has not yet been completely successful, and we still have a way to go to apply the principles of democracy to all aspects of our life.

Why did the Chinese have to import ideas from the West? What had happened which made this necessary?

In the industrial revolution the forces that were released in Europe and America, perhaps the greatest that have ever been released in the history of mankind up to that time, expanded throughout the whole world. When the great empires of Europe moved into the East the Chinese were no match for them, and China collapsed. Their system which had been so effective down through the ages was no longer effective. China was exploited, dominated and crushed. China did not even get the benefits of colonization. That was due partly to the United States, which had the most advanced policy in dealing with China. One reason why I think Canadians have supported the United States policy rather than the policy of Great Britain in China is that we felt the American policy was much more advanced.

I am thinking now about the open door policy of the United States. The open door policy of the United States 23315—2½

was not without ulterior motives. Perhaps it was because they were the last ones on the scene and wanted to horn in on some of the advantages which all the rest had gotten. That may be true enough, but the open door policy did put a stop to the division of China into spheres of influence, and prevented China from becoming a colony of any of the great empires, except parts of it. The Chinese never got the benefits of colonization like the Indians did.

When the Chinese met this tremendous overpowering energy from the West they crumpled; the village economy was destroyed. Some foreigners thought it benefited the people. They had kerosene to light their lamps instead of vegetable oil, and the lamps were better. They had cheaper tobacco. They were forced to take opium, which was certainly not good for them. The Chinese people did, of course, receive some advantages but they had to pay for them. The village economy suffered and was destroyed in many parts of China. Their whole economy was made completely ineffective.

At the beginning of the last century, when the village economy was destroyed when their own government was absolutely inadequate to deal with the new ideas, with the new situation, with the industrialized armament of the West, the Chinese began to rebel. Chinese people grumbled and began to say, "The emperor certainly must have lost the mandate of Heaven when he lets things descend to this level."

The first Chinese revolution, or shall I say the first phase of modern revolution in China, which has continued for the last 100 years—which most people of the West do not realize—was the Taiping rebellion.

The Taiping Rebellion was inspired by tracts from the first Protestant missionary to China. Those tracts fell into the hands of Hung Hsiu-chuan who had failed to pass the government examinations. It was a great comfort to him when he saw what was happening in China. He said "We can have the kingdom of heavenly peace in this country." This is what the Christian tracts were all about. Hung led Chinese forces northwards and the imperial forces of the Manchus crumbled before them. A government was established in Nanking. The Taipings marched right to the gates of Peking. They were finally defeated by foreign mercenaries, approved of by the foreign governments, in spite of the fact that the Manchus were more anti-foreign than the Taipings. The Taipings had a much more friendly feeling to foreigners. In spite of that, the foreigners threw their lot in with the Manchus instead of with the Taipings, and foreign mercenaries destroyed the Taipings. Then the Imperial armies of the Manchus killed more Chinese in wiping out the Taipings than in previous slaughter of rebels in the history of China.

I heard all about this from my Chinese friends, from the time I was a boy. I visited a city not far from the present Port of Shasi on the Yangtze River which had been completely destroyed. When I saw it 50 years later it was completely demolished; not a soul lived there. The Manchus had slaughtered all the men, women and children, because that city has supported the Taipings. Many of the Chinese who came overseas were descendants of the Taiping rebels, particularly in Indonesia.

However, the Chinese rose again. Chinese intelligentsia, who were aware of what was happening due to the oppression by foreign powers, and Chinese inadequacy, corruption and decadence, influenced the young emperor at the end of the last century in what was known as the Palace Revolution. The young emperor introduced reforms that would have changed the whole history of China. Yuan Shih-kai, however, advised the empress dowager to seize power. The Palace Revolution was crushed and the proclamations of reform were cancelled.

The next phase of revolution was the Boxer Rebellion. It was followed by the revolution which established the Republic of China.

I spoke only Chinese the first time I left China, because both my parents were missionaries-not only my father but also my mother who continued to work after they were married-and we were left to Chinese. I did not speak a word of anything but Chinese the first time I left. When we returned to China after the Boxer Rebellion my parents became interested in Canada by accident. My father was Norwegian but a naturalized American, my mother was born in the United States. My birth was registered in the American Consulate in Hangkow. I was born in Fancheng, Hupeh, the geographical centre of China. We had learned Norwegian during a stay of three months in my father's home in Norway. We had English-at least American English-in Iowa where we stayed with my mother's relatives. On returning to China we took the Soo Line from Minneapolis to Moose Jaw and from Moose Jaw we went by Canadian Pacific Railway to Vancouver to take the old Empress of Chinawhich was half steam and half sail.

While stopping for an hour in Calgary my father happened to meet a man who was a brother of a former schoolmate. He asked my father, "What are you going to do if your health breaks down when you go back to China?" My father replied "I have not given it a thought". The man said, "Why don't you buy some C.P.R. land?" You will remember that C.P.R. land was available to people who wanted to buy. My father's friend had taken a homestead near Tofield but all had been taken. You could buy half a section of C.P.R. land at \$3 an acre, with 20 years to pay and almost no interest.

My father and mother discussed this on the way to Yokohama and sent a cable to my father's friend, and we became owners of half a section of land, about 50 miles southeast of Edmonton. Later on, when my mother died, we moved to Canada and we became Canadians.

Now, where was I, Mr. Chairman?

The Chairman: I said I could help you with your time, but I do not think I can with your content. I think the last note I have is on the United States open door policy.

Senator Grosari: You were on the way back. In the chronological record, you had just passed the Boxer Rebellion and you were at about 1901.

Mr. Ronning: I think I went beyond that.

Senator Grosart: The Palace Revolution.

Mr. Ronning: Thank you very much. I was going to tell you about my first connection with the Palace Revolution. After the Palace Revolution, there came the revolution that established the republic.

Senator Grosart: You did not get to that.

Mr. Ronning: I was telling you that when I mentioned I could speak three languages, one of them being English. In my father's school there was a revolutionary cell, that had been organized by Dr. Sun Yat-sen. In every single missionary school throughout the country, this was the case. You know that many of the leaders of revolution in China came out of the missionary schools—including the last phase of the revolution. Many of the leaders came out of Christian missionary schools because Christianity does have vitality to liberate, and Chinese intellectuals wanted a republic.

I remember the first time I came into contact with the real purpose of the revolutionary cell in my father's school. I did not know why they invited us to attend their meetings. They just wanted my brother and me to come in and teach them how to pronounce English. They could read English, French and American revolutionary literature, and they knew what it meant, but they could not pronounce the words which they understood. So we helped them with pronounciation. That was all they wanted from us.

They were young adult students and they had queues, which you call pigtails. They were very proud of them, I thought. The front part of the head is shaved and they do not start braiding the long hair until it comes to the nape of the neck. They braid it all the way down, and when it does not reach the floor, they braid a tassel into it. I thought they were beautiful. In China it was a disgrace to grab anyone's queue. You know the way Chinese fought. Each man got hold of the other man's queue, and they pulled their heads together and each one used the other hand to punch the other's nose.

One day, one of the young men suddenly took his queue and put it over his head and said to us, "Look at this, it is a disgrace to all of us." You know, they wore queues only on account of the Manchus—and that is why the Chinese women bound their feet, to be different from the Manchus. The young man said, "Some day we are going to have a republic like you have and we are going to cut these braids off." And they did. They succeeded in establishing a republic.

But Sun Yat-sen, the provincial President of the Republic, did not have experience in Chinese politics. He was outwitted by Yuan Shih-kai who took over as the first President. Yuan Shih-kai tried to establish himself as the next Emperor. Actually, he succeeded, but he lasted for only 83 days before somebody put some poison into his bird's nest soup, and he joined his ancestors long before he had intended to.

That was the end of the new dynasty which Yuan attempted to establish. China was taken over by war

lords and there was chaos throughout the country. No one was strong enough to maintain law and order.

Sun Yat-sen organized the Northern Expedition to establish a revolutionary government. Since then that phase of the revolution was often referred to as the Great Revolution. Sun chose Chiang Kai-shek to be military leader of the Northern Expedition.

At that time I was back in China as a teacher. I was the only foreigner on the staff of the Hung Wen Middle School in Fancheng, Hupeh. All the other members of the staff were Chinese, and all the boys were, of course, Chinese, and they were all revolutionaries. There was only one member of the staff who was not a revolutionary. He was only kept on the staff because he had taught my father Chinese classics, and in any event he was an opium smoker so that his opinions did not amount to anything in any case. But all the others were revolutionaries; they were all members of the Kuomintang.

You must remember that Sun Yat-sen invited the communists who had been organized since 1921. Mao Tsetung was one of the charter members of that organization. The communists joined the nationalists in the Northern Expedition, which was successful, and a revolutionary government was established in Hankow in 1927.

In Hankow, I met one of my colleagues, a teacher from our school who had participated in the Northern Expedition. He was a political commissar under Chou En-lai. Chou En-lai indoctrinated the troops that came from the south, who finally wiped out the last of China's great war lords and set up a revolutionary government. Chiang Kai-shek, however, turned the tables on that revolutionary government and set up a government of his own in Nanking.

The last phase of the revolution was the one which started in the Civil War in 1946, after the American failure to get a coalition of the nationalists and the communists.

First there was Pat Hurley. By the way, Pat Hurley was a great friend of General Odlum. Then there was George Marshall who followed him. You will remember that Pat Hurley tried to get the goodwill of the communists by doing not the Indian war dance but the Indian war whoop, as if that were going to bring about a coalition between people as different as the nationalists and the communists in China. General George Marshall, however, did perform an excellent job in his attempt to bring about a coalition. And you will remember that when he failed he said, "A plague be on both your houses." Before he left, George Marshall expressed his opinion of Chou En-lai. He said, "Of all the negotiators, Chou is head and shoulders above the others." Marshall had great respect for Chou En-lai, and Chou En-lai has made important contributions to China. There is no doubt about that in my mind. The Civil War was won by the Communists.

My second reason for considering history to be important, to understand developments leading up to the present situation in China is that the United States had become so involved in the world power struggle with the Soviet Union that Americans assumed that communism was a great international hierarchy controlled by Moscow. Many American analysts did not accept that idea, but their influence was wiped out by McCarthy and by the McCarron activities in the United States. The United States assumed the mythical idea that Moscow had made it possible for the Chinese communists to win the Civil War. That is not correct. The U.S. assumed that the new government organized in Peking on October 1, 1949 was a puppet of the Soviet Union. Nothing of the sort. The Chinese communists received no assistance from the Soviet Union in winning the Civil War. It was entirely on their own.

There was one exception. A few Japanese small arms and supplies of ammunition were left behind in Manchuria when the Russians withdrew. The Chinese communist troops were superior to the nationalist troops, although the Chinese nationalist troops in Manchuria were the best equipped of all the nationalist troops. Chiang Kai-shek did not accept the advice of American military men in China at the time and thus extended his armies into Manchuria which enabled the Chinese communists to surround the nationalist troops. That was one of the important factors in their winning the Civil War. The Chinese communists won the Civil War entirely on their own.

On my way to Chungking in 1945 I was held up in Calcutta due to British troops shooting down Indian students who had been parading and demonstrating against Britain in India. I was unable to get to the airport in time to fly over the "hump" to China. In Calcutta I met two Chinese gentlemen with whom I got into conversation. I did not know at the time that they were communists, or where they were from, or why they were there. Later we flew together over the "hump" to Kunming. In Kunming they told me that they had just come from San Francisco where they had attended the organization of the United Nations as communist representatives on the Chinese delegation.

By way of explanation, at that time the Civil War had not broken out and the nationalists had accepted some communists to participate in the organization of the United Nations meeting in San Francisco.

When I learned who they were I mentioned that I knew what was their attitude to the Soviet Union in 1927, because I had been in Hankow when the revolutionary government came into power and when it was sold down the river by Chiang Kai-shek. I know that from that time the Chinese communists had not been guided by Moscow. The Moscow-organized party was wiped out by Chiang Kai-shek, and Mao Tse-tung was persona non grata in the communist party which was organized by Moscow. Mao had said that in China you can have a revolution only by organization of the peasants. He was told that that was not orthodox communism. Some Chinese communists said, "No, you cannot do that. You have to organize the politariat. That is the only way." But Mao Tse-tung said, "We have no politariat, but we have peasants."

In China the peasants have always been the determining factor in the final analysis, because when the peasants took the mandate of heaven away from the emperor, the emperor collapsed and a new dynasty came into being. So Mao Tse-tung used the tactics of successful Chinese rebels, the guerrilla warfare type of thing, and he used that successfully as a result of which he won the Civil War and came into power in 1949.

On the afternoon of October 1, 1949, as Canada's representative in Nanking I was invited together with members of the diplomatic corps to the foreign office for an important announcement by Mr. Huang Hua, who was a graduate of Yenching University of which Leighton Stewart, the last American ambassador to China, had been the principal for many years. During Leighton Stewart's principalship of Yenching University nearly the whole crop of graduates every year went over to the communists. Why? There was no other alternative way for them to protest what was going on in China under the nationalists. The Democratic League whose objective was to establish the principles of democracy in China had attracted many young Chinese, but anyone who joined the Democratic League, professor or student, was taken out and executed. Graduates of Yenching did not desire that sort of a termination of their protest. The only alternative for them was to join the communists. Huang Hua was one of those graduates. He spoke English. Every graduate of Yenching spoke English.

However, to get back to what I was saying, the remnants of the diplomatic corps in Nanking of which I was one, were assembled on October 1, 1949, and Huang Hua addressed us in Chinese. It was the first time in modern China that the Chinese had the courage to use their own language in addressing foreign diplomats. They were expected to speak to foreigners only in French or English. The natinalists had done this, but the Chinese Communists spoke in their own language. So, as I said, Huang Hua who speaks English, stood up and informed us that the Government of the People's Republic of China had been organized in Peking and invited us to recognize the new regime and to exchange diplomatic missions with the new Government.

I was the only member of the audience who understood what he said. But I said nothing, and, in fact, nobody said anything. Then Keith Officer, the Australian Ambassador, stood up and said, "Mr. Huang Hua, unfortunately we do not understand Chinese and we did not understand a word you said. May the Canadian representative interpret for us?" Mr. Huang Hua did not reply because he did not understand English—officially. So I stood up and interpreted in Chinese what Keith Officer had said. Huang Hua agreed and I gave the first interpretation of the invitation which was subsequently interpreted formally.

I come now to the third reason for the importance of knowing something about the history that has led to these developments. The first was Chinese tradition and the second was American analysis on the basis of a myth. The third reason for reviewing some of the history of the

development is to understand Canada's position and the contributions which Canada has made.

You know that Canada as a middle power successfully used the United Nations to achieve an armistice in Korea, When the war in Korea threatened the very existence of the United Nations, Canada was important in saving the United Nations from disaster. I cannot go into all the detail, but Canada hung out longest to insist in 1953 that the Americans in Panmunjom accept the 8-point proposals of the Chinese communists and North Koreans for an armistice, because they were identical in substance with the India Resolution which has been passed when Mr. Pearson was the Chairman of the General Assembly. We therefore insisted that the proposals should be accepted although the Americans had rejected them. We took the stand that we could not accept responsibility for the consequences if there was a failure to get an armistice, when the communists had offered us our own terms. In the Korean Conference of 1954 we tried to get a peace treaty in Geneva. We hung out the longest because we thought that the proposal made by the Chinese was an honourable solution, but we did not have the backing of the United Nations at that time because the UN did not participate directly in the conference. The doors were closed on the possibility of reaching an acceptable peace settlement. To this day we have no settlement, but we still have a cease fire and an armistice. Hostilities have not been resumed in Korea.

When the United States escalated the war in Vietnam from South to North Vietnam, the head of our Government regretted the bombing and suggested a halt. He was the only head of government of countries friendly to the United States who had the courage to do this. Furthermore, in 1961, we joined India in the International Control Commission in declaring that not only Hanoi but also the United States and Saigon had violated the 1954 Agreement. The Poles would not support that report to the Co-Chairman because they said that Hanoi had not violated the agreement and that only the United States and Saigon had done so. Therefore it was only a majority decision.

In December 1965 the United States did halt the bombing of North Vietnam but resumed it again early in January, 1966. Canada's Prime Minister regretted the resumption of the bombing, and he was the only western head of government that sent a personal representative to Hanoi with a letter replying to Ho Chi Minh's proposals. At that time we brought back a proposal from Hanoi that if the United States would unconditionally stop the bombing of North Vietnam, the North Vietnamese would immediately come to the peace table. On October 31, 1968, two and a half years after the proposal was made, President Johnson declared the cessation of bombing of the whole of North Vietnam unconditionally. Hanoi responded immediately and came to Paris. To this day the talks in Paris have not touched on the only issue that is at stake, and that is whether or not there can be a coalition government. The United States has backed up General Thieu in his refusal to make that issue negotiable, and until it is negotiable there can be no peace in Vietnam. These are the three reasons why I think history is important.

Now I did not succeed in getting out of some of the controversial area, but I had no intention of doing that. History tells us what has happened. Some aspects of China's ancient tradition had a crippling effect upon the determination to modernization. The cultural revolution is concerned chiefly with the modernization of China to make China the great power which it probably will be. The contest today is not merely the power struggle between the United States and the Soviet Union, but both of them are giving considerable consideration to the growing power of China. The second point that the United States accepted a fallacious analysis as the basis for a most dangerous China policy. The third reason why I think we should know something about this history is that Canada has been influential and Canada can continue to be influential.

It may not be as easy now to work through the United Nations, but we shall certainly have to refrain from accepting the conclusion which many Americans have accepted that the United Nations is of no consequence. We must not toss out a valuable baby with the bathwater. The United Nations may still be our best and only hope for peace.

The Chairman: Thank you very much, Mr. Ronning.

Hon. Senators: Hear, hear.

The Chairman: It is clear from the response that you have heard, sir, that you have been extremely well received.

We will proceed directly to the questioning, and, as I indicated at the outset, I will ask you to be kind to one another so that all can participate.

Senator McNamara?

Senator McNamara: Mr. Chairman, honourable senators and Mr. Ronning, I think at the outset I should express my personal appreciation of this very illuminating review of Chinese history that Mr. Ronning has given us here today. I had a great number of questions in my mind. In his oral presentation Mr. Ronning has answered the majority of them already.

I have felt for some time that in this committee's study of the Pacific rim, not enough recognition has been given to date of the role of China, and the Canadian-Chinese relationships that are going to apply. We have had interesting and informative discussions on Japan, New Zealand and Australia, but I have always felt that the committee has not delved enough into Chinese possibilities. That is why I was particularly pleased with your presentation today, and I know that I speak for all honourable senators when I thank you most kindly, sir, for your very inspiring, interesting and illuminating address.

Mr. Ronning: One of the ideas you mentioned leads me to realize one thing I omitted to say in respect to what Canada has done.

Canada is the only nation friendly to the United States, outside of France, that has finally recognized China. The other Western nations which recognized China-India on December 26, the United Kingdom on January 6, Norway, Sweden, etcetera-did so before the United States policy had been crystalized and had become rigid. This is why we delayed so long-twenty-one years and 13 days after I sent a telegram recommending that we should do it, because the benefits of recognition would be dissipated inversely as the square of the time it would take us to decide. It took us 21 years and 13 days. How is it that we are able to do it now, and not before? Because of the possible threat to the United Nations. The United States was so emotional about this whole affair. Twice we intended to do so in addition to the first time when I had already rented a house in Peking and the Chinese had accepted a proposal we had made. We were on the point of recognition when the Korean War broke out and the possibility was dropped for the time being. Twice since then we have tried. Each time we found that the President of the United States was so emotional about the repercussions that if we recognized China, then Italy would do it, France would do it (this was before France had done it), and Belgium would do it, and there would be a landslide of recognition. That would mean that there would be a change of the representation of China in the United Nations. The American attitude was that the United States could not tolerate Peking representing China in the United Nations. The United States would have to withdraw from the United Nations and kick the United Nations headquarters out of the United States. Whether that was a bluff or not I do not know. Many of my American friends say it was a bluff. At any rate, we could not take a chance on such a possibility. Our long delay in recognition of the real Government of China was justified only on the basis of our interest in the United Nations. This high state of emotionalism has subsided in the United States and there are many people in the United States today who want to recognize China. I thought for a while that the Americans were going to beat us to it, but fortunately we beat them to it.

Just the other day I had lunch with a senator who aspires to be the Democratic nominee for the next presidential election. He said to me, "I am so glad that you have recognized China and are establishing diplomatic relations, because this gives us a formula for doing the same thing". My comment was that our formula could not be used by the United States because the United States had created the Taiwan problem. Italy and Ethiopia could and did use the Canadian formula. That is merely taking note of the claims of Peking to Taiwan. The United States could not merely take note of China's claims because Americans had created that situation. Until the United States does something about remedying that situation there is not the slightest chance of the Chinese accepting an American intention to recognize. It would be necessary for Americans to state that the problem of Taiwan cannot be solved by the United States, nor can it be solved by the United Nations, nor can it be solved in any other way than by the Chinese themselves. The United States must accept Peking's assurance that the

matter will be settled peaceably. The Chinese have said that they are prepared to solve the problem of Taiwan peaceably.

Senator McNamara: Just before asking a few brief questions, I would just like to make a personal observation. In my relationships with China I was delighted to find how well I was received when I went over there. I have no doubt this was due to the very extensive diplomatic work of Mr. Ronning and others in China. We were treated as friends when we first went there and we are still treated as friends. I think a great tribute must be paid to our diplomats and the Government for their patience over the years in never departing from the objective that Canada should recognize China.

I had the benefit many years ago, before I started dealing with China, of meeting Mr. Ronning and spending many hours with him in Geneva when he knew that we were embarking on this project of selling wheat to China, and the advice and counsel he gave us at that time was most helpful in our future deliberations with China. Again, I want to thank Mr. Ronning for that.

I do not intend to try in any way to monopolize the meeting because I know that other senators probably have not had the opportunity I have of exploring Mr. Ronning's mind on some of these questions. There is one question in this paper that intrigues me related to the historical review that he has made today. I noted that Mr. Ronning and other Chinese observers and students have dealt with the history of China and, over the centuries, their culture and way of government. I am wondering if the changes that have occurred in the last few years, with the organization and industrialization in China, represent a permanent change, or is China going to absorb them and carry on its own culture? Can we look forward to a dramatic change from now on in Chinese relationships with the rest of the world?

Mr. Ronning: Yes, I think there is no doubt about it. This is a genuine revolution. It may be the most important revolution that has ever taken place in the history of mankind because more people are involved in it. Also there is a much greater change from the old tradition than in any previous revolution. Many aspects of the old tradition are still supported and many aspects of the old tradition should be supported, but there are many aspects of the old tradition that crippled the Chinese for modernization. Chinese habits have to be changed, and they are being changed. Yes, this is a thoroughgoing and genuine revolution. I saw more reforms made during the 21/2 years that I was in China after the liberation of Nanking—and I am not putting that word in quotes, because being liberated from the old tradition and liberated from the corruption of the old Nationalists was a genuine liberation. There is no doubt about it in my mind. As a result of that liberation the revolution is going on today, with industrialization, as you say, and with the change of the habits of the people.

I will relate one little example. All the cities of China from the days of my childhood stank to high heaven even when one walked down the main street past the entrance

to a back alley, because the men urinated there. Even for defecation they did not move far enough away to go to the latrines which had been erected by the farmers who wanted the nightsoil to fertilize their fields. It was a terrible habit. My wife used to say to me when she came with me to China: "How is it you are annoyed by all these stinks? You have been brought up with them." My nose never was.

When the Chinese Communists came into Nanking they divided the whole city up into areas. In each area they had a group of young people who entertained the people in traditional Chinese guildhall style. They beat the side drums, sang songs, clickety-clacked with bamboo sticks and recited in rhyme the evils of urinating in the street. They termed it a public nuisance and a detriment to the people. This group moved to the next area and for two weeks you could not go to any place in Nanking without encountering several of these groups entertaining the people, who liked it. This was followed by a little lecture regarding the evils of these undesirable old habits. Finally, after two weeks, they said: "Now, everybody knows what a terrible nuisance this is and anyone that does it will be fined. You are going to be caught, because we are going to watch." The air in China's cities became wholesome.

Senator McNamara: One matter has bothered me over the years, and I wonder if you could give some explanation. When we first went into China to negotiate we were received in a very friendly manner. Of course, during the negotiations we heard about the evils of other people. They have never really criticized Canada, except that we are such a small people, living beside this imperialist power, big brother. They can understand, and do not criticize us. However, on various occasions they have gone after the British, no doubt because of the Boxer Rebellion. I was there during the change in the attitudes towards Russia. They have never seemed to me to be too friendly towards France, although French business has progressed materially since they recognized China.

In all my visits to China there has been no propaganda at all against Japan, yet during my lifetime it has seemed to me that the Japanese were the people who really took advantage of China. Why is it that the people themselves do not seem to be critical of the Japanese? Are they afraid of them? Are they looking forward to working with them?

Mr. Ronning: I believe one reason to be that at the time you were in China and to date Japan has not taken any action against China. It has been unable to do so. It may be that the present situation will change. However, the hatred for the Japanese in China is very deep-rooted. During the war they called them the devils from Japan. The rest of us are sometimes referred to as foreign devils.

There is no campaign against the Japanese in China, because the feeling against Japan is so deep-rooted they do not need one. The hatred campaign against the United States is necessary, however, in their view because

Americans were the most popular foreigners in China, having the most advanced policy towards China before the Peoples Republic of China came into power.

By the way, I called on Mr. Hsü, the new chargé from Peking, the day after he arrived here. Without any prompting from me he said: "You know that we still believe that the Americans, the people of the United States, are friendly to us and that we can depend upon the people of the United States to restore the friendship of the United States". In my opinion if the President of the United States succeeds in ending the war in Vietnam and in restoring relations with China he will rise to the highest prestige that any American president has ever enjoyed.

I was born an American and I am not anti-American. I am pro-American. Because I am pro-American I want the United States to take the type of action that will end this campaign of hate. The Chinese are basically in many respects similar to the Russians and the Americans. These are the people of the three great powers, and have a great many similarities. The people of China certainly, and the people of Asia, excepting a few puppet nations, would regard recognition of and diplomatic relations with the real government of China as a step in the right direction, which could eventually restore the prestige of the United States to the high level it should and probably will have as a result of the progress being achieved by a growing number of the people of the United States today.

Senator Grosart: Mr. Ronning, I have listened with very great interest to what I know you would not mind me describing as a highly subjective course in Chinese history. I have taken the course myself and, as you know, have lived in China. I would not agree entirely with all your interpretations of facts. I have a slightly different view of the Taiping rebellion and some views as to whether the present revolution could be regarded as in continuation of the Taiping rebellion. I would hope not.

However, there is an amazing similarity between that and Sun Yat-sen and his revolution, the Christian element. Sun Yat-sen, of course, himself became a Christian and was allied very closely to the Sun family, and so on. Has the fact that it was Christian, and therefore foreign, been a disadvantageous factor in the Chinese revolutionary movement?

Mr. Ronning: I was in China during the most intense anti-Christian campaign that has taken place there. This was in the years 1922 to 1927. It was remarkable that the anti-Christian campaign was directed not against the teachings of Christianity, but against the organization of the Christian church. The Christian church did use extraterritoriality as an umbrella under which Christian organizations worked. Many missionaries were opposed to it extraterritoriality; my father was one of them. However, I think perhaps the greater number of missionaries were for it. In many places the Chinese who joined Christian churches did so only for the purpose of winning lawsuits. The priest or the pastor of a Christian church, under extraterritoriality, was immune from Chi-

nese law. In addition, the treaties contained provisions that there must be no persecution of the Chinese Christians. In China in those days there was no difference between persecution and prosecution. Therefore, if a Christian, a nominal Christian, took a case to a law court and it was decided against him he would report it to his priest or pastor, who would in turn report it to his counsel in Hankow who would report it to the minister in Peking. In the case of the province of my birth, the latter would communicate with the foreign office, which would rebuke the Viceroy in Wuchang, the seat of the Viceroy of the twin provinces of Hunan and Hupeh.

Hunan is the home of Mao Tse-tung and Hupeh is mine. The Viceroy would send a message to the Tao Tai who lived right across the river from where I was born, and he would send the message to the Hsien magistratethe county magistrate—and he would invariably reverse his decision in favour of the Christian. Therefore, you had not only rice Christians and dollar Christians, but court Christians and that is why some Chinese said that they understood why the Christians always closed their prayers with "Amen", because in the way the Chinese pronounce it it sounds like "Yamen" which means the magistrates court when you change the tone a little. Christians were accused of closing their prayers with this benediction. Most missionaries did not intentionally use extraterritoriality and printed on the back of their caling cards that it was not to be used for anything else but courtesy purposes. Chinese Christans sometimes used cards which did not carry the notice on the reverse side of cards to win lawsuits. The anti-Christian campaign was directed almost entirely against the use of extraterritoriality. The only attack made on the teachings of Jesus was regarding the tree which bore no fruit. Otherwise there was no attack on the teachings of Christ but only on church organization and extraterritoriality.

The Chinese communists have not found it necessary I think because in too many places where the church had always been run by foreigners it faded away. The only churches that exist in China are the ones that were controlled by the Chinese themselves.

Senator Grosart: Yet the number of offending Christians in China was never very great.

Mr. Ronning: That is right.

Senator Grosart: It was practically minimal. Why did not more of them take advantage of these tremendous things?

Mr. Ronning: The Chinese have been pragmatists and confucianists—Confucius said that he did not know anything about the spirit world and that he could not teach anything about it. He advised anyone who did not want to take a chance to get his wife to go to the Taoist or the Buddhist temples to pay her respects, but that he was unable to teach anything about the spirit world because he had doubts as to whether there was one.

Most Chinese have not been as religious, for example, as the people of India, but Christianity did have a great

influence in some areas of China. As I said, out of the Chinese Christian schools came many of the leaders of the revolution.

Senator Grosart: My mother taught a lot of them. To take another subject, Mr. Ronning, are you satisfied that the Chinese, under the present regime, is content with its present borders, other than the province of Taiwan?

Mr. Ronning: I think so. If you will examine very objectively you will note that this new regime has not carried out any aggression beyond its borders. During the Korean conflict Canada, for a long time, tried to stop the Americans from introducing in the United Nations the resolution to brand the Chinese as aggressors, but in the final analysis China was branded by the General Assembly as an aggressor. In my opinion any responsible government in Peking concerned about the national security of their country could not have done anything else than cross the Yalu to stop the armies led by General McArthur. You will remember that the Chinese crossed in sufficient numbers to stop General McArthur's advance, and then they retreated hoping that he would retire south of the 38th parallel. He did not and the next time he came he met the full onslaught, and the Chinese drove the United Nations forces out of North Korea. In the Indian conflict they operated in the Northeast Frontier Agency in exactly the same way as they did in Korea; they went across the M'Mahon line, and six or seven Indian divisions were surrounded.

Perhaps, Mr. Chairman, I might be permitted to tell a little story about a Canadian correspondent, who went up to Tawang in the Northeast Frontier Agency, at the time the Chinese started to cross the M'Mahon line. He asked the brigadier in charge how things were going. The brigadier told him, "Oh, there's nothing to it. The Chinese come up this valley and we mow them down. They come over the dead bodies and we mow them down again. This place is impregnable." The Canadian asked what would happen if they walked over the mountains. The brigadier said, "Young man, have you ever walked over mountains like that? I tell you nobody, but nobody, has ever walked over those mountains." Famous last words. The Chinese walked over the mountains, and they not only took Tawang but completely demobilized six divisions of the finest Indian troops. Then what did they do? Did they want more territory? They had too many headaches from the territory they had. They withdrew unilaterally and have remained north of the M'Mahon line since 1962.

Senator Grosart: This has been said about every imperial power in history, that they have got enough territories and they do not want any more. Take the history of Korea. The Chinese claimed Korea. In effect they were forced by the Japanese, first of all to concede its independence. Do you think it is reasonable to presume that the Chinese are not going to insist on restoring that piece of mainland China which is what it is?

Mr. Ronning: You mean Korea?

Senator Grosart: Yes.

Mr. Ronning: I doubt very much that the Chinese have any desire to do that, or in Indo-China, for the reason that if these areas can remain a buffer state, that would be more valuable to them than being occupied by China.

Senator Grosart: This is what the British used to say in India, and what every imperialist power has said about a buffer state it was going to take over.

Mr. Ronning: But you will remember that Britain was a small island and needed to expand. China is a vast area. Nobody can predict what is going to happen, and I would not dare to predict what is going to happen in the future, but certainly for the foreseeable time there is no likelihood of China expanding beyond the borders of the old empire. Of course, when they went into Tibet...

Senator Grosart: This was part of the old empire, that is my point, just as Tibet was.

Mr. Ronning: In that case they will go into Vladivostok and all that area north of China.

Senator Grosart: I was going to ask you that next, because it is only the unequal treaties of the 1850s on that denies them that whole coastline opposite Japan, from the Amur River down. I have lived in Shihchiachuang, so I know something of the feeling there.

The Chairman: Senator Grosart, could I ask a courtesy of you and Mr. Ronning? Senator Fergusson has to go soon. May she ask a question, and then we can come back to you.

Senator Grosart: Of course.

Senator Fergusson: Thank you very much, Mr. Chairman. I will be very brief, but there are one or two things I would like to know. I should like to know how important the Chinese leaders themselves consider their foreign relations? Do they think it does not take a high priority?

Mr. Ronning: No. I believe they think it does take high priority, but their attitude towards foreign powers and foreigners has grown out of the treatment they had from foreigners. They fear the ideas of foreigners, although all the ideas on which the revolution is founded are foreign ideas, which came to China but were put through the Chinese mind. When ideas are considered in the light of practical value in China they are not exactly like the foreign ideas were in the first place.

There is no doubt about the fact that the Chinese want better relations with foreign powers. One reason why they have not shown too much indication of this since 1954 is that we closed the door on them when they wanted peace in Korea. The West isolated them. In my estimation, at that time the Chinese had become more mature in the sense that we use the word "mature" than the Soviet Union had. We forced them back again. Many Americans say that the Chinese have isolated themselves. When you isolate anybody, of course, he isolates himself.

Senator Fergusson: I have my perennial question which I suppose members of the committee will expect. You have not said anything about the position of women, politically or economically in China. Could you tell us anything about that?

Mrs. William Seigel: May I ask a question as an observer? At the time Madam Pandit was at the United Nations, Chou En-lai invited her to go to China, and he enabled her to have a good look at China. I am wondering, Mr. Ronning, if Mao Tse-tung at that time had gone to Madam Pandit, the sister of Nehru, whether it would have made a difference.

The Chairman: Before you answer, Mr. Ronning, may I say it is not our usual custom to answer directly to observers. I would have to ask the consent of the committee. We would certainly recognize the comment and I would like to have it recorded in *Hansard*. You, sir, are required only to answer Senator Fergusson, but perhaps within your answer you might deal with both questions.

Mr. Ronning: To take the last one first, I do not know. Nobody knows. There are differences between Chou En-lai and Mao Tse-tung but basically they are the same. I know that not only Chou En-lai but Mao Tse-tung as well regard the position of women in China as being equal to that of men. That is true also in India. India has a woman prime minister, Indira Ghandi, and Ceylon has Mrs. Bandaranaike. You know that when the Asians accept modernization in any respect whatever, they go further than we do. It is taking us much longer, for example, to take steps like the Indians have done with respect to family planning. It has taken us much longer to yield to women the same place that men have in our society.

Senator Fergusson: They really embrace these things, they believe them and put them into force, do they not?

Mr. Ronning: Yes, there is no doubt about that. You know that China was once matriarchal. Before it was patriarchal, it was matriarchal. You know that you have two areas in India today that are still matriarchal—one up in Assam and one down in Kerala.

Senator Fergusson: Thank you very much. I would like to ask what seems like a silly question.

The Chairman: You never do that, Senator Fergusson.

Senator Fergusson: Mr. Ronning, you know quite a lot about Taiwan, too. The thing I want to ask you is something I have wondered about for quite a long time. I have learned that Canada imports canned mushrooms, about \$2 million worth a year. How do they happen to raise them? We have to go to a lot of trouble to raise enough mushrooms to can, and you have to be on a special list to be able to get the mushrooms raised in Canada.

Mr. Ronning: I have been eating them and I like them, but I cannot tell you how to raise them.

Senator Fergusson: That is something I wondered about.

Mr. Ronning: You know that the Chinese raise wood fungus. They do not wait for the forest to produce it. Wood fungus is a delicacy in China and it is shipped to Canada in dehydrated form. You can buy it in the Chinese stores here in Ottawa, by asking for wood ears, and dehydrated lilies, and so on. They do not wait for a forest to produce it; they raise it at home. And of course bean sprouts are produced in every house in every village in China. The same is true of mushrooms and wood fungus.

Senator Fergusson: They are able to export them, and it seemed to me that I should ask how it was done.

Thank you, Mr. Chairman, for giving me the opportunity to ask that question. I have read about Mr. Ronning, and am delighted to have had the opportunity of listening to him. He has told us a great deal.

Senator Grosart: I would like to pursue this question a little further because I think it is in many ways the crux of the attitude of the west towards China. May I say that I share your admiration for the present Chinese revolution and for chairman Mao, for what he has done and, with some exceptions, the way he has done it. We all have to have our reservations when the heavy hand falls on luckless individuals, as it did in Tibet and other places.

The areas of possible expansionism in China are obvious. There is the Amur border down at Shihchiachuang, Korea, Taiwan, and, I think to some extent, Indochina. One of the things that would indicate to me that this is so, that the Chinese have it in mind, is the fact that they have made that southern province, Kwangse, an autonomous region. It has always been one of the 18 provinces. It is on the border of Indochina. They have given it this special status. These are exactly the same mechanics, if that is the purpose, as the Russians adopted to do the same thing. In fact, right there you have the autonomous Mongolian Republic. Why did they give it that status if this is not a prelude to expansion and to creating at least one more, perhaps two more, autonomous territories within China in Indochina?

Mr. Ronning: I do not think the reason that Kwangse has been made autonomous is due to any intention whatever of expanding the borders of China. And remember that the Chinese never marched into Indochina to control Indochina. It was the Mongols who did that. The North Vietnamese will say, and the Vietnamese throughout Vietnam will say, "any enemy of China is our enemy"; and, "any friend of China is our friend"; and, "China is our friend";

No, the reason for Kwangse is that you have 800,000 aborigines living there and it is the special attention that Peking allows to other than the Han people that has brought about that special position in Kwangse.

And you must not forget that the people of Tibet regarded the Chinese coming into Tibet as a liberation from the dictation of the Lamas and the mercenary Kampas. The Kampas, who were brigands, were sometimes used by the Lamas as mercenaries who oppressed the peasants of Tibet. You will also recall that every

Chinese government that has been strong has always had control of Tibet. The Chinese were not invading a foreign country when they marched into Tibet.

Senator Grosart: I would agree with that, but what is your estimate of the number of Tibetans who were massacred? Estimates that I have seen put the numbers into the hundreds of thousands.

Mr. Ronning: I think that is just a part of the propaganda.

Senator Grosart: It could be. I was not there so I can only take what historians have said were the facts. I do not know if they were or not.

Mr. Ronning: If you believe all the propaganda about the slaughter of Chinese landlords in the distribution of lands—most of this I think is just anti-Chinese propaganda. There were some landlords who were killed, but you must remember that when you had a ruthless organization of landlords, such as you had in the province of Szechuan, who had in their hands the life and death of the peasants, then you can understand the reaction against such landlords by the oppressed peasants. The peasants had to come to time because the landlords could wipe them out if they did not obey. One of the most vicious organizations in the whole history of China was the landlord organization in the province of Szechuan.

In the province where I was born the landlords were not so important. From childhood days I visited villages around the city where I was born. I frequently went with my father, and later on I would go with Chinese students and teachers, to observe their organization of the peasants for the great revolution between 1922 and 1927. In all the villages in the area where I was born there were very few great landlords. The land was owned mostly by the farmers themselves and they had co-operatives. So it is not too difficult for them to accept many of the principles of communism because many of those principles have been characteristic of the Chinese society for milleniums.

Senator Grosari: In the next province to yours Mao Tse-tung himself was the victim of the landlordism of his own father.

Mr. Ronning: That is right. The landlords were much more vicious in Hunan than in northern Hupeh where I was born

Senator Grosart: I have no sympathy for landlordism in China actually.

The Chairman: I shall have to interrupt you both in the interests of time, and turn to Senator Carter.

Senator Carter: Mr. Chairman, Mr. Ronning has certainly put a lot of meat on our plate this morning. I do not think we can digest it all in one meal and I hope we will have the opportunity of having him back again before we wind up our meetings.

The Chairman: I think that would carry with unanimous agreement.

Senator Carter: I should like to follow on with a question arising out of Senator Grosart's question about Tibet. Mr. Ronning seemed to pass over that somewhat on the basis that this has happened before and it is only a question of China asserting its power and rule over a country that had been under Chinese jurisdiction a number of times in the past. But at that time Tibet was an autonomous state. As I understand it the Tibetans did not invite the Chinese in to liberate them.

Mr. Ronning: Certainly not, that is correct. But the Tibetans today are probably much better off than they were under the Lamas and under the terrorization of the mercenary Kampas.

Senator Grosart: I might say that I would agree with that.

Mr. Ronning: Let me give you one example of the Chinese attitude to Tibet as a part of the Chinese empire. An Indian military adventurer by the name of Gulab Singh invaded Tibet and occupied much of the area that is now known as Ladak. The Dalai Lama could not resist this invasion. He therefore made a treaty with Gulab Singh ceding Ladak to the military adventurer from India. When Peking heard about this, they said "The Dalai Lama cannot give away Chinese territory which is part of the Chinese empire. If that is going to be done, it will have to be done in a decent manner and legally." So Peking drew up a treaty with the King of Lahore and ceded Ladak to the King of Lahore in accordance with international law. This was so that it would be done in a legal manner. But it was ceded to the King of Lahore so the Indian legal claim to parts of Aksaichin may be better than their claim to the Northeast Frontier Agency. The Chinese representative from Peking signed the treaty at Simla which acknowledged the M'Mahon line as the border between China and British India. But Peking never endorsed his signature. Until a treaty, regardless of the fact that it has been signed by a representative, is approved by the home government, it is not valid. The legal personnel of the State Department had always insisted that the M'Mahon line had not been validated as between the Chinese Empire and the Northeast Frontier Agency.

Kenneth Galbraith—when he was the United States Ambassador in India at the time I was High Commissioner—recommended to President John Kennedy that he over-rule the legal boys of the State Department and declare that the M'Mahon line was the line between China and India. Who was the first one to protest? It was Chiang Kai-shek.

Senaior Carter: Well, I do not want to take up too much time on that. I must say that in listening to you you seem to be arguing that the ends justify the means. I do not doubt that the Tibetans are better off, but I do not say that would justify moving in when they have so much on their own plate. It seems to contradict your theory that China is non-expansionary.

Mr. Ronning: That all depends on whether or not Tibet was part of the Chinese empire or not, does it not?

Senator Grosart: All treaties are a bit unequal.

Senator Carter: I would like to get your opinion on the differences between Russian communism and Chinese communism. They have two different backgrounds. You have just given us the philosophical background of the Chinese tradition, out of which Chinese communism emerged; whereas Russian communism arose out of more of an economic background.

All communism, as Ilunderstand it, is based on materialism. Would you say that Chinese communism is less materialistic than Russian communism, or would you say that they are basically the same, or are there basic differences?

Mr. Ronning: As far as materialism is concerned, I should not think that there is any difference. Of course, it is an ideology that is concerned with materialism. There is no doubt about that. Both of them are. Of course, while they both spring from Marxism and Leninism, they differ in Stalinism. All communists parties throughout the world, with one exception, were organized by Moscow. The one exception is China—and I am not forgetting Yugoslavia. Moscow did organize a communist party in China, which was wiped out completely. Mao Tse-tung had left that party and had gone to the Kiangsi-Hunan border and had set up a Soviet Government in China, which was finally surrounded by Chiang Kai-shek, and then the Communists marched four or five thousand miles away up to Yenan.

There is another thing you must remember in regard to the differences between Russian Soviet communism and Chinese communism—and this is true of nearly all ideas. Remember that the Chinese language is completely different from any other language, and your thoughts are clothed in language, in words. When you have not the exact terminology, the translated idea becomes a little different, and the Chinese have always been most pragmatic and, therefore, materialism appeals to the Chinese and they have been less metaphysical. When it comes through the Chinese mind it becomes different. The Nestorian Christianity, for example, became quite different when it was in China and all that is left of it today is a stone tablet. The same thing happened to many foreign ideas which came into China. The Chinese language was so different. Do you know that Christians in China could not even agree on what Chinese term should be used to designate God. The Jesuits differed from the Franciscans and the Dominicans in how to say God in Chinese. The Jesuits use Shang Ti which in connotation is the equivalent of the heavenly Father. This was an old idea in China. Everyone in China knew the significance of Shang Ti. The foreigners who differed with the Jesuits said it was a pagan idea and proposed the use of Shen, which means a spirit. My father was a Shang Ti man, because he was very pragmatic like the Jesuits.

Senator Carter: Are the goals of Russian communism and Chinese communism the same—namely, world domination? Russia makes no bones about it, that her goal is -world domination.

Mr. Ronning: I cannot say anything about Russia because I have made no study of their program. Certainly China has no intention of dominating the whole world. The Chinese, of course, wish to exert their influence everywhere as do all great powers. Every time the Chinese try to exert influence in any part of the world outside of China we say it is none of their business. We do not hesitate—certainly Britain and the United States do not hesitate—to exert their influence everywhere and anywhere. The Chinese have the same ambition, to exert their influence, and they will use some of the same means that all of us use. Whenever the Chinese do it, however we say it is subversive.

Senator Carter: Isn't China following the same line that Russia followed, namely, exporting revolution, to set up a local party which takes orders from Moscow. Now we have the Naxalites in India, and in Canada we have those who are inspired by Moscow, with Maoist thoughts and all that.

Mr. Ronning: Not Maoist thoughts from Moscow.

Senator Carter: I did not say they came from Moscow.

Mr. Ronning: One can only express one's own views. My conviction is that the Chinese Government has so far demonstrated by its practice that it has no aggressive intent beyond the borders of the Chinese empire, and there is no necessity for it.

The Chinese do not export wars of liberation. Wars of liberation are produced only in those areas which are ripe for wars of liberation due to the conditions existing in the area in question. By the way, the war in Vietnam is making many more Communists every time an American bomb destroys a village destroying homes and killing people. Every bomb that is dropped on a village creates Communists and makes the ground ripe for Communism.

Returning to the question, unless we are prepared to accept the proclaimed policy of the Government, the only alternative we have is to make war.

Senator Grosart: Oh, surely not.

Mr. Ronning: The only alternative.

Senator Grosart: Unless we accept the proclaimed policy of the Government?

Mr. Ronning: For example, I was met with this question: if we leave the problem of Taiwan to be solved by the Chinese themselves—and the Chinese proclaimed they would do it peaceably...

Senator Grosart: By a plebiscite on Taiwan?

Mr. Ronning: We must not dictate the method.

Senator Grosart: I am merely asking, is that the peaceful method that the Chinese would adopt?

Mr. Ronning: I do not know what the method would be except that it would be peaceful. I am of the opinion that unless we are prepared to let people of every community decide their own destiny, regardless of what it is...

Senator Grosart: And Quebec?

Mr. Ronning: I am talking about foreign countries.

Senator Grosart: The question is whether Taiwan is a foreign country. Some people say it is an independent nation and some people say it is a province of China. My interjection is therefore quite opposite.

Mr. Ronning: If we cannot accept the word of Peking that it will settle the problem peaceably, then what is the alternative?

Senator Grosart: We have had the alternative for years.

Mr. Ronning: And we are maintaining that alternative today. That is why the United States is in Vietnam. The United States has proclaimed that the real enemy in Vietnam is not Hanoi, but "Asian Communism with its headquarters in Peking." So the United States is fighting Communism.

Senator Grosart: That is why Canada was in Europe in two wars; it is exactly the same philosophy.

Mr. Ronning: Maybe we were.

Senator Grosari: Maybe we were wrong, but that is what we said; we were there to make the world safe for democracy.

Mr. Ronning: But we did not succeed in that.

Senator Grosart: I am fully in accord with the fact that Taiwan must become part of a China.

Senator Connolly: We are inclined, of course, in this country to generalize too much. Certainly I think in respect of the problems of China and our relations with that nation we are inclined to generalize far too much. A situation as complex as that cannot be oversimplified.

However, I would like to return to Mr. Ronning's original theme, that to understand China one must understand her history. I wonder if the changes that have taken place as a result of a series of revolutions leading to the establishment of Communism in China mean that the old cutlural structure of China will ultimately disappear? This would be due to the influence, to a certain extent, of the civilization of the west, the Christian civilization, which perhaps has not had a very profound influence among the Chinese. Finally it would be a result of the infiltration of materialistic Communism, as Senator Carter has termed it.

In other words, it seems to me that the disappearance of some of the physical factors of life that you have described, such as the lack of sanitation, would be of benefit. Is the philosophy, the religion, the culture of ancient China, which we have always considered to be the oldest culture in the world and which has survived the longest, going to disappear? If so, will the world lose something that we should endeavour to preserve and which would be useful for the world?

Mr. Ronning: I have been in China too long to give a definite answer. I know that many statements I have

made this morning have been oversimplification of the very, very complex problem to which you are referring. It is terrifically complex and it is so difficult for us in industrialized societies to understand the situations in an ancient, agricultural society such as China.

However, the revolution taking place within China will preserve many of the cultural aspects of the civilization. As a matter of fact, before I left there was much evidence of the great emphasis and importance that the present regime attaches to the cultural heritage of China. Those aspects of the tradition that prevent modernization are under attack and will be changed. For example, the old tradition was that the intellectual elite controlling China could not use their hands, so the old Confucianists had long fingernails. When I was a boy the hardest work they did was to hold a brush and perform the most beautiful calligraphy, with all the most difficult rules and complications in composition you could think of. That must go; the Chinese now must accept the use of their hands as we do. We do not understand the momen um of tradition in China because we are accustomed to using our hands and respect the man who uses his hands in labour. However, the old tradition in China, and, indeed, in India—many high class Indians will not even carry their briefcases, much less their suitcase; the bearer takes care of that.

That old tradition is being changed and should be changed. Innovations such as sanitation and many modern inventions that are beneficial to the people will be accepted. However, I do not think that even if they wishes to they could wipe out all undesirable aspects of the old tradition in one revolution, or overnight. It has such tremendous momentum that I do not believe there is any grave danger to the cultural aspects of Chinese tradition.

Senator Connolly: Mr. Chairman, I thank Mr. Ronning for his answer. I hope we would be so fortunate that he could come back. It would be certainly useful and instructive to us if he could discuss some of these cultural values which have preserved the Chinese and kepthem as a people. Those that are most important and useful, not only to them, but perhaps also to the people of the west could be emphasized.

I think and I am sure Mr. Ronning will agree, that we of the west can learn much from those of the east.

Mr. Ronning: That has been my point all my life. Many times during the course of my life I have felt in trying to interpret China that it is like running one's head against a stone wall. This is because we have felt we have everything to teach and nothing to learn. We have a great deal to learn from the people of China.

Senator Pearson: We receive every week a newsletter from the Royal Thai Embassy. At page 3 of the newsletter dated February 1, 1971, the Thai foreign minister is quoted as follows:

...Peking had not responded positively to the peaceful initiatives of other nations. He said Thailand was not alone in making the offer for peaceful co-existence with Peking. Japan, Indonesia, India, Malaysia and others had done similarly, he added.

Nevertheless, Dr. Thanat said, Peking had reached toward such good and peaceful intentions by continuing its truculent and hostile attitude toward the countries of free Asia.

What is your answer to that?

Mr. Ronning: I would say it is largely propaganda. Remember that Thailand is supported by a foreign power and what he says is not correct with respect to all the "dominoes". If one starts at Afghanistan and goes to Nepal, Burma, Ceylon and the independent nations of Asia, many of them have made peace with Peking. However, Thailand has not until very recently been interested, because the Thais today fear that the United States is actually winding down the war in Vietnam, which they do not wish to happen. Judging by the excursions into Cambodia and now into Laos the war is not wound down by winding it up. Nevertheless, the Thais are afraid that some day they will have to deal with the Soviet Union and China and are making moves today in preparation for that.

Burma, for example, asked Mr. Nehru to approach Chou-En-lai when he was in New Delhi to accept the M'Mahon Line as the division between Burma and China. Chou En-lai accepted immediately and the relations between Burma and China are fine, the relations between Nepal and China are fine, and the relations between Ceylon and China are fine.

Senator Pearson: On the other hand, Thailand contains a number of Communist cells and China has built a large military road down towards Thailand. Their fear is that their country eventually may be taken over by China.

Mr. Ronning: Yes, I think they do have that fear. However, my opinion, formed at the Korean Conference, but especially at the Laos Conference, is that Chinese would prefer buffer states in the whole of Indo-China, for their own security.

The Chinese want neutrality in that area; Averell Harriman wanted neutrality in that area and the United States may move towards the position of making the whole area neutral, including Thailand. That would be satisfactory to the people there and would allow them to decide for themselves whether they wish to be aligned with one side or another. They may wish to be non-aligned in the same manner as India. China would approve of this.

The Chairman: We do not have many witnesses who say "my belief is" and "my conviction is", and you have been saying it for two hours. We are very grateful.

The committee adjourned.

APPENDIX "J"

THE PEOPLE'S REPUBLIC OF CHINA

- 1. General Facts
 - (a) Area—3,700,000 squares miles
 - (b) Population—(estimated) 850,000,000Annual rate of increase 2 to $2\frac{1}{4}$ percent
 - (c) Economic data

Gross National Product—
Per Capita Income—
Total Exports—
Total Imports—

U.S. \$80,000 million U.S. \$100

U.S. \$2,000 million U.S. \$1,800 million

2. Canada's Relations with the People's Republic of China (a) Political—

China, having emerged from the turmoil and disruptions of the Cultural Revolution, is now placing considerable stress on increasing industrial and agricultural production at home and improvement of its image abroad. Since the convening of the Ninth Party Congress in 1969, efforts have been made to rebuild the Chinese Communist Party, many sections of which had been rendered ineffective during the previous three years. The reconstruction of the party is, however, proceeding at a slow pace and appears to be largely under the direction of the army. The latter, brought in originally to restore order among contending factions during the Cultural Revolution, still has a major responsibility for preserving order and also controlling and directing production in many areas.

Many of the officials who had been attacked and dismissed during the cultural revolution have now been reinstated although they are still subjected to constant pressure to raise the level of their ideological zeal if they wish to avoid further criticism.

While industrial and agricultural production have, in many sections, returned to or surpassed 1966 levels, the situation in other fields, such as education, remains unclear. The educational system is still seeking an acceptable compromise between producing "expert" and "revolutionary" graduates. Universities and other institutes of higher learning are only just beginning to function after four years of disruption and their present effectiveness is uncertain in view of the emphasis which they must place on the political attitudes of students rather than on their academic performances.

China's recovery from the convulsions of the Cultural Revolution has been more marked on the international scene than domestically. Even those countries which two or three years ago might have had reason to be offended by the behavior of China's emissaries and by the treatment afforded to their representatives in Peking, are prepared to respond to China's renewed interest in establishing more amicable relations. There is no reason to believe, however, that any of her basic objectives have changed; it is rather more likely that those who have a part in formulating Chinese foreign policy are once again proceeding from the principle that many opportunities to exert a positive influence on other nations can be lost by a constant display of truculance and hostility.

Perhaps the single most significant indication that China is prepared to play a more active role in the community of nations is her recent expression of a positive interest in joining the United Nations. While, as a member, she will very likely be difficult, China must certainly be aware that she will have to display some degree of responsibility if she hopes to gain the co-operation and support of any substantial number of the members.

With respect to Sino-Canadian relations, in particular, the most important development in recent years was, of course, the announcement on October 13, 1970 that Canada and the People's Republic of China recognized each other and were establishing diplomatic relations. This followed 21 meetings between Canadian and Chinese representatives in Stockholm over a period of 20 months. While Canada did not endorse the Peking claim that Taiwan is part of the territory of the PRC, we did agree in the joint communiqué to "take note" of the Chinese claim. In a unilateral statement made at the same time as the announcement of the communiqué in Ottawa, the SSEA clarified the Canadian position by stating, that, in taking note of the Chinese position, we meant simply that we are aware that this is the Chinese view and we realize the importance they attach to it, but we have no comment to make one way or the other.

Since the communiqué was released, the Chinese have in general been most co-operative and friendly, not only to the Survey Team which went to Peking in late October and November to arrange for the setting up of our Embassy and related matters, but to all Canadian officials travelling to China. The only factor which might have a complicating effect on our new relationship is the Canadian decision taken again in 1970 to vote in favour of the Important Question Resolution relating to Chinese Representation at the United Nations. The Chinese regard this as a procedural tactic sponsored by the United States to make it more difficult for them to gain admission to the U.N. Departmental spokesmen have, however, insisted that while we consider the question of Chinese representation to be important, we have already made it clear at the United Nations that we would not wish this resolution to be used as a device to frustrate the will of the membership. Now that the annual resolution to seat the PRC has for the first time received majority support in the General Assembly (by a vote of 51 to 49 with 25 abstentions), a new situation exists that is bound to affect the vote on the Important Question Resolution next year should the resolution be put forward again.

With respect to the establishment of embassies in Peking and Ottawa, we now have detailed reports from our survey team which has recently returned from China. Although we are faced with minor problems relating to shortages of accommodation, the Chinese have been generally very co-operative and we expect to have the basic staff of our new embassy established in Peking by early January 1971. This in turn will make preparations for the installation of our Ambassador in the spring. Although, as yet, we have received no definite word from the Chinese on the present state of planning for

their mission in Ottawa, we expect that they will follow a roughly similar schedule.

When our embassy is operational, we will wish to discuss a number of questions and, in some cases, seek formal agreements on such matters as the privileges, immunities and exemptions normally accorded embassy personnel and property, consular services and access to private Canadian citizens in China, outstanding claims, telecommunications and air transport agreements, etc.

(b) Trade

Our mission in Peking will also include a strong component from the Department of Industry, Trade and Commerce. We consider it important that our trade representatives are located where they will have direct access to the headquarters to the Chinese trading corporations and will be in the best possible position to advise Canadian businessmen of any potential markets that may exist for their products. We do not anticipate any startling rise in trade figures but will work for a steady and healthy growth in Canadian exports to China.

Apart from a few notable achievements such as the detonation of nuclear bombs and the launching of an earth satellite, China's economy is relatively unsophisticated with heavy dependence on the labour intensive agricultural sector. Recent emphasis has been shifted once more to agriculture and light industry and away from attempts to achieve dramatic breakthroughs in the development of heavy industry (the latter being characteristic of the Great Leap Forward from 1958 to 1960 and, to a considerable degree, of the Cultural Revolution from 1966 to 1969). Stress is also being put on economic self-reliance both from the nation in general for the development of production at the regional level in particular.

Canada's trade with China has been conducted on the basis of a commercial modus vivendi which entered into

force on September 26, 1946, with an exchange of notes in Nanking. (Although this modus vivendi was entered into with the Nationalists, it has continued to apply to Canada-China trade despite the establishment of the PRC in 1949.) Under the terms of the modus vivendi, Canada and China exchange MFN tariff treatment.

The last restraint agreement with the Chinese state trading corporations concerning the levels of Chinese exports of cotton and other textile products to Canada expired on July 31, No agreement was reached for the 1967-1968 period. Canada has forwarded annual indicative lists for the 1968-1969, 1969-1970 and 1970-1971 restraint years to the China Resources Company registering the views of the Canadian authorities on the acceptable levels of certain Chinese exports to Canada.

Although Canada's trade balance with China has been highly favourable over the past decade, Chinese exports to Canada increased ninefold between 1961 and 1969. Our grain exports, on the other hand, showed considerable annual variations in quantity while our non-grain exports showed almost no advance over this period. In 1969, wheat sales (\$117.5 million) once again constituted over 95 percent of our exports to China (totals \$122.4 million). The major non-grain exports were scrap iron and steel (\$2.0 million) and nickel (\$.3 million). Canada imported \$27.4 million from China, of which clothing (\$5.3 million), green peanuts (\$4.6 million), gloves and mittens (\$2.7 million), walnuts (\$2.5 million), print cloth and sheeting (\$1.9 million) and pillow cases (\$.9 million) were the major items.

(c) Aid

Canada does not provide aid to China.

(d) Immigration

There is no immigration directly from China to Canada.

APPENDIX "K"

TAIWAN

1. General Facts

- (a) Area—13,884 square miles
- (b) Population—13,245,669 (1967)

(c) Economic Data—
Gross National Product—
U.S. \$4,199 million
U.S. \$312

Per Capita Income— Total Exports— Total ImportsU.S. \$312 U.S. \$1,000 million U.S. \$1,200 million

2. Canada—Taiwan Relations

(a) Political -

After 50 years of Japanese occupation, Taiwan was returned to China at the end of World War II. The Taiwanese, however, demonstrated little enthusiasm for Nationalist Chinese rule and in February 1947, undertook an abortive uprising aimed at establishing an independent Formosa. This attempt was ruthlessly crushed and was followed by a further consolidation of Kuomintang rule when approximately two million Nationalists escaped to Taiwan after their defeat by the Communists on the mainland in 1949.

Using the fiction that they represent all of China, the Nationalists fill more than 97 percent of the seats of the National Assembly with supporters supposedly representing constituences on the Mainland. Since less than 3 percent of the seats are assigned to representatives from Taiwan province, the 80 percent Taiwanese majority on the island have little say in the government.

Although it appears that the United States originally had no firm intention of protecting Chiang Kai-shek and his followers, the outbreak of the Korean War and the subsequent USA decision to establish a defence perimeter around mainland China led to the signing of a Defence Treaty between the United States and the Nationalists.

Based on American support and influence and on an active diplomatic campaign of their own (in which they have made particularly effective use of agricultural assistance to Africa), the Nationalists have not only managed to maintain diplomatic relations with a large number of countries but have succeeded up to now in retaining their seats in the Security Council and General Assembly of the United Nations.

Their position in the United Nations is, however, becoming increasingly precarious, particularly with the "Albanian Resolution" calling for their expulsion and the seating of Peking representatives being passed this year for the first time (by a vote of 51 to 49 with 25 abstentions). Only the approval by a reduced margin of the Important Question Resolution requiring a two-thirds majority for passage of the Albanian Resolution saved

the day on this occasion for the Taipei representatives. Many observers consider that there is a strong possibility of the Nationalists losing their seat in the United Nations either next year or in 1972.

Canada and the Republic of China had maintained diplomatic relations until October 13, 1970 when Canada and the People's Republic of China recognized each other and our recognition of the Nationalist government automatically ceased.

(b) Commercial Relations-

Aided by large infusions of American capital and investment Taiwan's economy has continued to show a steady growth rate of 10 per cent per annum over the past decade. Agriculture's share of the gross domestic product fell from 32.5 per cent in 1960 to 24.4 per cent in 1967, while industry and commerce rose respectively from 24.7 per cent and 14.4 per cent to 28.5 per cent and 16.4 per cent.

Canada's trade relations with Taiwan have been based on the September 26, 1946 Sino-Canadian commercial modus vivendi which was extended to Taiwan by an exchange of notes in 1948. According to the terms of this modus vivendi, Canada and Taiwan have exchanged Most Favoured Nation tariff treatment. Despite the fact that we no longer have diplomatic relations with the government of Taiwan, we intend to continue affording Most Favoured Nation treatment to imports from Taiwan and expect that our products entering Taiwan will be given similar treatment.

Taiwan restrains its exports of certain cotton and rayon textile products under the terms of a Memorandum of Understanding which was signed between Canada and Taiwan on October 2, 1969 and is due to expire in October, 1971. Current negotiations on restraint levels on these and other products may continue at some suitable location.

Trade Totals

Canada has had a sizeable trade imbalance with Taiwan in recent years. In 1969 Canada imported \$42.4 million from Taiwan while exporting \$12.6 million. Major imports were mahogany plywood (\$12.1 million), footwear (\$4.4 million), sweaters (\$3.5 million) and canned mushrooms (\$2.2 million). Major Canadian exports to Taiwan were sulphur (\$3.9 million), wheat (\$2.0 million), woodpulp (\$1.6 million) and rapeseed (\$1.5 million).

(c) Aid-

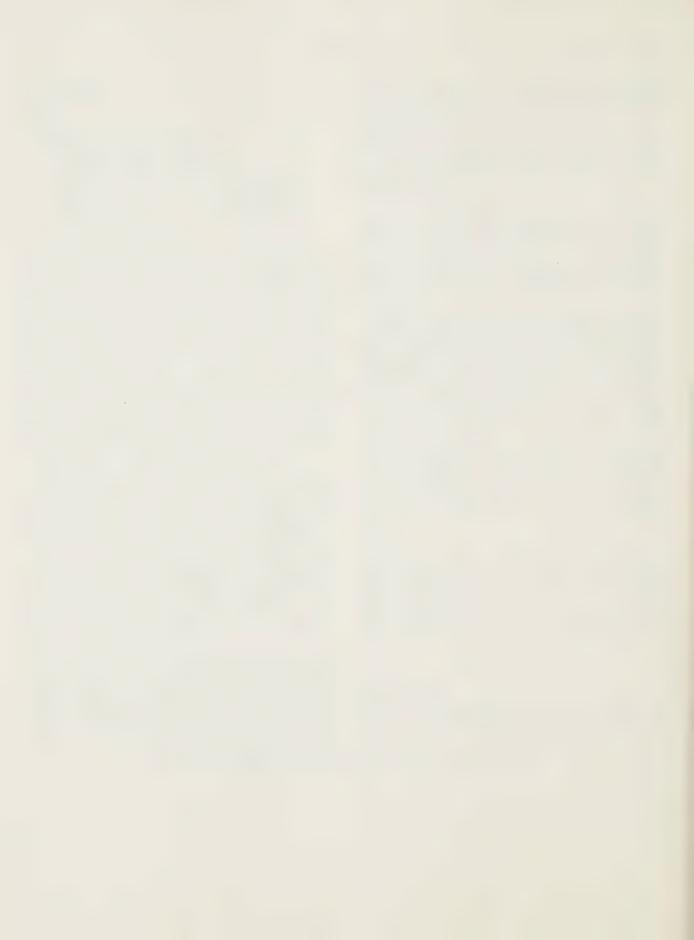
Canada does not provide aid to Taiwan.

(d) Immigration-

There has been a small flow of several hundred immigrants per year from Taiwan to Canada. Applicants are processed by our Immigration office in Hong Kong.

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Third Session—Twenty-eighth Parliament 1970-71

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, Deputy Chairman



TUESDAY, MARCH 2, 1971

Respecting
THE PACIFIC AREA

(Witnesses:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman
The Honourable Allister Grosart, Deputy Chairman
and

The Honourable Senators:

Belisle McElman Cameron McLean Carter McNamara Nichol Choquette Connolly (Ottawa West) O'Leary Croll Pearson Eudes Quart Fergusson Rattenbury Gouin Robichaud Haig Sparrow Lafond Sullivan Laird White Lang Yuzyk—(30).

Macnaughton

Ex officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate, The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to reign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Tuesday, March 2, 1971. (13)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 3.05 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Belisle, Carter, Connolly (Ottawa West), Croll, Eudes, Grosart, Lafond, Laird, Macnaughton, McNamara, Pearson, Rattenbury and Sparrow.—(14).

Present but not of the Committee: The Honourable Senator McDonald (Moosomin)—(1).

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

The Deputy Chairman (Senator Grosart) introduced the witnesses.

Witnesses: Canada-Japan Trade Council:

Mr. Robert L. Houston, President; Mr. N. Gauthrie, Executive Secretary; and Professor Keith Hay, Economics Professor at Carleton University.

Agreed: That a submission, prepared by the Canada-Japan Trade Council, entitled "Canada's Relations with the Pacific Community", be appended to today's printed Proceedings (See Appendix "L").

The following documents were tabled:

- (a) List of Members of Canada-Japan Trade Council and their Business Classification.
- (b) Canadian Minerals and the Japanese Market.
- (c) Canada-Japan: The Export Import Picture.
- (d) The Japanese Economy: Continuing Liberalization.
- (e) Newspaper article: The Ottawa Journal, July 4, 1970, entitled "Limitless Potential for Trade Lies Just Over Pacific Horizon".
- (f) Newspaper article: The Ottawa Journal, November 7, 1970, entitled "Japan Under Pressure to Bolster Defence Force".
- (g) News article: U.S. News and World Report, October 17, 1966, entitled "It Would be Idiotic to Deal with the Viet Cong".

On motion of Senator Carter,

Ordered: That the above-mentioned documents be identified as "Exhibit 4"; and be made part of the Committee's records.

The witnesses were thanked for their contribution to the Committee's studies.

At 5.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 2, 1971.

The Standing Senate Committee on Foreign Affairs met this day at 3 p.m.

Senator Allister Grosart (Deputy Chairman) in the Chair.

The Deputy Chairman: Honourable senators, I have to report that the Chairman is regrettably and unavoidably absent today and that he has asked me, as Deputy Chairman, to take over in his absence. He is hoping to make a plane from Toronto that will get him here before the conclusion of this meeting.

Our witnesses today are representatives of the Canada-Japan Trade Council. We have with us Colonel Robert L. Houston, the President of the Council; Professor Keith Hay, of Carleton University, a well-known expert and authority on Canadian-Japanese relations; and Mr. Greg. Guthrie, the Executive Secretary of the Council. I do not know whether Mr. Guthrie has been promoted or demoted, but some of you may know that he was a distinguished member of the staff of a former Leader of the Opposition in the other place. We welcome Colonel Houston and his associates here today.

Members of the committee received some papers prepared earlier, and we have just distributed a precis of the opening remarks that Colonel Houston will make.

To identify Colonel Houston a little more fully, although I am sure many of you are aware of his distinguished background, I will tell you that he is a graduate of the Clarkson College of Technology, Potsdam, New York; of the British Army Staff College at Camberly; of the United States Armed Forces Staff College at Norfolk, Virginia; and of the National Defence College of Canada. He was an instructor at the Canadian Army Staff College and at the NATO Defence College in Paris, France.

At the end of the war he was Commanding Officer of the Fourth Canadian Armoured Divisional Signals. He was wounded during the campaign in France, and was awarded the French Croix de Guerre.

He has been Director of Operations and Plans for the Canadian Army and co-ordinated the planning for Canada's tri-service participation in the United Nations Emergency Force which moved to the Middle East at the time of the Suez crisis in 1956. He later served as Deputy Military Adviser to the International Control Commission in Vietnam.

He attended the United States Nuclear Trials in the Pacific in 1958, and observed three nuclear and atomic explosions. He has served on different international committees, including the United States-Canada Permanent Joint Board on Defence, and was Chairman of a Planning Sub-Committee of that body. He has been on the executive of the Canadian National Committee of the United World Colleges for a number of years.

In 1963 he resigned from the service with the rank of full colonel and subsequently became president of the Canada-Japan Trade Council.

The council includes some 425 Japanese and Canadian companies and individuals in its membership. Colonel Houston, in his capacity as President of the council, has appeared before committees of Parliament and has visited more than 50 countries in both military and civilian capacity. He is also a member of the Association of Professional Engineers of Ontario. With that, may I welcome Colonel Robert Houston, our first witness.

Mr. Robert L. Houston, President, Canada-Japan Trade Council: Thank you, Mr. Chairman.

Mr. Chairman and honourable senators, my colleagues and I very much appreciate this opportunity of appearing before you. With your permission, Mr. Chairman, it will be my intention to attempt to amplify some of the points made in our brief and following my remarks I hope honourable senators will question me freely on any area of Pacific affairs.

We have followed carefully the proceedings of this committee to date and have gained the impression that there are several points in which you are particularly interested: Japanese trade and investment policy, the relationship between industry and Government in Japan, the degree of penetration of the Japanese market by foreigners, future possibilities for Canadian investors and businessmen there, whether, in fact, the door to Japan's economy is open, ajar or closed. I trust that we may be able to shed some light on these complex questions.

After seven and a half years with Japan and other Pacific rim countries, I am convinced that a new vista has opened for Canada in this region. It presents the prospect of tremendous rewards. If we do not take advantage of the opportunities offered, we certainly have no one to blame but ourselves.

The primary interest of the Canada-Japan Trade Council is trade between the two countries, and among the documents submitted together with the brief you will see our membership list, published in April of last year. Since that time we have nearly 50 new members, some small indication of the growing awareness of, and interest in, Canadian-Japanese relations. Our members, all by personal invitation, include almost all of the principal Canadian corporations, chartered banks, investment

houses and similar institutions, together with many other well-known but more specialized Canadian firms. Representatives of several of these member organizations have already appeared before your committee. I would like to emphasize that our membership includes also about 50 Japanese firms, including all the major Japanese trading companies which are now established here as Canadian business entities.

Over the years the council has been fortunate in the degree of confidence it has been able to earn with leading businessmen in both countries and with government officials at all levels in both Japan and Canada. In consequence, there are few matters of any importance touching upon Canadian-Japanese trade and its spectacular growth with which I have not been directly involved. The large coal contracts, in their earliest stages, the development of the Port of Roberts Bank, the improvement of other ports and transportation facilities, many of the huge raw material development projects involving our two countries, the opening up of trade in other types of commodities—all have come within the ambit of the

Someone once said of the council that it was engaged in "industrial diplomacy". However true that description may be, it is certain that in similar circumstances elsewhere there has always existed a grey area between formal relations at the government level and exchanges between individual businessmen and, with it, the need for some liaison body. It is in this area that I believe we have been able to do our most useful work.

In carrying it out, we have always endeavoured to avoid any suggestion of special pleading or of espousing the cause of one country as opposed to the other. One of the greatest benefits or pursuing this policy has been that both Japanese and Canadian officials and businessmen have been frank and open with the council. This has enabled us to acquire information invaluable in indicating trends, likely bottlenecks and other problem areas in the fast-moving and changing picture of Japan-Canada trade. Only with such knowledge are we able to function effectively.

Regarding this trade picture, it is interesting that projections generally have been inclined to run behind actual performance. In 1954, the first year of operation under the Canadian-Japanese trade agreement, Canada exported some \$96 million worth of goods to Japan and received in imports from that country about \$19 million worth. By 1969, the last full year for which I have final figures, this had jumped to exports of approximately \$625 million and imports of \$492 million—passing, for the first time, the \$1 billion mark for total trade. For the first 11 months of 1970, combined trade had reached \$1.25 billion with the prospect of closing out the year close to \$1.5 billion. As a matter of fact, this has continued. I now have tentative figures for all of 1970. Exports to Japan totalled \$793,078,746, and imports to Canada totalled \$581,715,075, for a total of \$1,374,793,821.

Senator Connolly (Ottawa West): What were the original figures for the year?

The Deputy Chairman: They are not in the text.

Mr. Houston: Tentative figures of exports to Japan...

Senator Connolly (Ottawa West): I would just like to have the original figures for the year that he stated.

The Deputy Chairman: Do you not have a copy of the text?

Senator Connolly (Ottawa West): Yes, Mr. Chairman; I am sorry.

The Deputy Chairman: Perhaps Colonel Houston would repeat the figures.

Mr. Houston: These are tentitive figures. I say tentative because the final figures will be published around May. However, they are reasonably correct. Exports to Japan totalled \$793,078,746, imports to Canada totalled \$581,715,075, for a total of \$1,374,793,821.

The council's projection for 1973 is for a combined trade of more than \$2.25 billion while the forecast for 1975 is in the order of \$3.75 billion. The cardinal fact of Japanese trade with Canada is her desire, indeed vital need, for assured supplies over an extended period. Japan regards Canada highly, as a stable country politically and economically, and I believe that Japan prefers to do business with Canada in preference to some other countries. There are instances, in fact, of Japanese firms paying a premium for indulging this preference.

However, it would be dangerous for Canadians to get the idea that Japan must buy resource materials from Canada. There are many areas of the world where she can purchase high quality commodities at good prices. Australia, for instance, is Japan's second largest supplier to the tune of \$1.5 billion in 1970. One estimate foresees this figures exploding to \$6 billion by he late seventies.

The Australians have embraced the Japanese market for their goods with open arms. It has released them from dependence on only one economic giant, namely, Britain. Australians are found widely throughout Asia searching for new markets for their agricultural products, their mineral wealth and their manufactured goods. In the Pacific, Australia is a fair market for Canadian goods, but she is also Canada's most important competitor. Her salesmanship and balanced view of joint ventures to develop her natural resources is a trade policy Canadians might well study.

We have plenty of world competition. Canadians would be wise, in my estimation, to stress the advantages we do have: reasonable proximity, congenial relations, ample supplies and a shared belief in freer world trade. But we must also ensure that we have facilities in this country adequate to fulfill delivery commitments and that such deliveries will not be disrupted by unexpected crises. We must also keep on the crest of technological advance and, through sound economic intelligence, place ourselves in the position of anticipating competition, new markets and new techniques.

One of the clouds on the skyline of Japan-Canada relations is the reiteration in this country of the suggestion that Japan is pursuing some deliberate and sinister policy of despoiling Canadians of their natural resources. We may have cause for regret in the years to come for some of our statements.

True, Japan needs many raw materials and Canada has most of them in abundance. But in buying what we have to sell, Japan is surely guilty of no sin. She pays well, avoids any effort to control resource enterprises and, to my knowledge, has never been other than sympathetic to Canadian problems in regard to depletion, pollution or a higher proportion of processing within Canada. It might be a very interesting exercise were Canadian suppliers of basic raw materials—I repeat, Canadian suppliers of basic raw materials-to suggest to their Japanese counterparts during contract negotiations that more Canadian content in shipments was desirable. There is nothing that I know of to indicate that Japanese businessmen would be averse to a proposal that a greater degree of processing or even manufacture be undertaken in Canada before shipment. In such a proposal, of course, it would be desirable to see that it made sense commercially. It is perhaps ironic that economic nationalists in Canada, who advocate barring the door to foreign capital without distinction, are unconsciously proposing the type of restrictive home market which other Canadians reproach Japan for maintaining.

Both Japan and Canada should take the view that international trade is a means by which nationals in both countries can benefit from a wider selection of commodities at lower prices.

Even basic resource development is not the barren thing which many critics would wish the public to believe. In Alberta, for instance, export coal today has provided 1,000 jobs or more. By 1977, this figure is expected to reach 7,500 and these are jobs in the mines alone. It does not countenance the great number of other jobs and enterprises made possible by such resource development projects. New townsites must be built, new communities established. These in turn require a full range of service and supply businesses, new professional practices and a whole chain of dependent enterprises, with all that means in ancillary employment. The coal development of McIntyre Porcupine Mines Limited at Grand Cache has produced a new town of 2,500, which is expected to triple in size by 1975. The leases on the property have been held by the company since 1921, but awaited the recent rise in the demand for coal to come into production and inject a healthy spurt in the provincial and national economy. Recently, in testimony before the Canadian Transport Commission, Mr. H. M. Romoff, Research Manager of the CPR, stated that coal development in the Kootenay region would generate, over a 15-year period, some \$324 millions in wages and \$210 millions in taxation. This development spawned other benefits felt across the country. Unit trains, for instance, had to be designed and built, utilizing Canadian talent, crafsmanship and materials that called on the resources of Cape Breton, New Brunswick, Quebec and Ontario, among others. The interesting point here is that this industry was moribund until revived by Japanese need for coking coal and the availability of American risk capital. There can be no doubt that, but for these two factors, the Kootenay coal would still be in the ground. Those millions in wages would be unpaid, the taxes would be ungathered and much desirable Canadian content in the form of necessary ancillary technological

development and manufacture across the country would remain unborn.

The ideal, undoubtedly, would be for Canada and Japan to be exchanging, in perfect balance, nothing but high value-added goods, produced in areas of manufacture exclusive to each country. But if we want to sell a prolific number of manufactured goods to Japan, we have to do our homework in both marketing techniques and product research and development.

Given the relative size of the export market, the question might be asked why we maintain more than 20 trade commissioners in Britain, eight in Australia and seven in Japan. The need for understanding and information about the Japanese market is crucial, but we have a great scarcity of Japanese-speaking Canadian businessmen and Government officials. Perhaps we might consider an exchange of graduating commerce students between Canada and Japan. In this way, young Canadian businessmen would learn about Japan and begin to master its language. We would lay the groundwork for much better economic intelligence respecting the Japanese market for a whole range of Canadian goods.

Another key to success in Japan is surely for Canada to offer highly sophisticated manufactured goods. The Council subscribes fully to the "new industrial strategy" of the Special Senate Committee on Science Policy, a strategy aimed at an international market-oriented competitiveness rather than at national industrial self-sufficiency. The relative decline of research and development in Canada makes it clear that a basic change in our stance on investment in research and development is urgent. In the meanwhile, I see no alternative but for Canada to follow the familiar evolutionary path, slow and painstaking as it may be. We can scarcely hope to achieve the highly-industrialized society we apparently want without first utilizing the great advantage we have in abundant raw materials. In my view, there can be no greater spur to economic development and internal economic expansion than development of our natural resources in a practical and sensible manner.

As I shall outline later, the day of expanding Japanese demand for Canadian raw materials may drastically decline with the end of the present decade, bringing instead increased Japanese demand for the widest range of Canadian services and finished goods. In this connection, in the Council's submission, mention has been made of the need for greater imagination and aggressiveness on the part of Canadian business if it is to gain a successful lodgement in the Japanese home market. There are some examples of Canadian enterprises which have been successful in this way, both in regard to export of finished products and of technology, but they are all too few.

To try to correct a widespread misunderstanding of the Japanese market, I will now deal briefly, in general terms, with the Japanese economy as it is and how it may be in 10 or 15 years hence.

Japan is now the world's second largest importer overall. She is the first importer of resource materials.

With your permission, Mr. Chairman, I think the honourable gentlemen could read this themselves, which would save time, or would you prefer me to continue?

The Deputy Chairman: No, please carry on; is that the wish of the committee?

Hon. Senators: Agreed.

The Deputy Chairman: It will take approximately ten minutes at the pace Colonel Houston is reading.

Mr. Houston: Japan is 100 per cent dependent upon imports for her nickel, bauxite, uranium and natural gas. She is 99.5 per cent dependent for oil; 99.1 per cent for iron ore; 75 per cent for coking coal, and so on down the list. She is the world's largest importer of oil, coal, soybeans and cotton, second of iron ore and wool, third of wheat and sugar. Demand has been estimated to rise in the period 1969-75 in the following order: uranium, 1,000 per cent; iron ore, 117 per cent; coking coal, 102 per cent; crude oil, 92 per cent; zinc, 86 per cent; copper, 72 per cent; nickel, 68 per cent.

The Japanese steel industry foresees world supremacy in production by 1975, and it may come sooner. It is already second in production only to the United States. Last year Japan produced some 93 million tons, or close to 15 per cent of world production. By 1975 she aims to produce up to 160 million tons. The United States, last year, produced 134 million tons, but is not expected to increase either rapidly or quantitatively in comparison to Japan. To produce her steel in 1969, Japan imported 83 million tons of iron ore and 38 million tons of coking coal. With a 20 per cent increase in both over the next few years, by 1975 she is looking to import 180 to 185 million tons of iron ore and 84 million tons of coking coal. All too few Canadians realize that between 1951 and 1970, Japan invested more than \$11 billion in plant and equipment to make increased production possible. Translated into immediate Canadian terms, all this foreshadows an increase, by 1973, from 1969's one million tons of coking coal and two million tons of iron ore to 12 to 13 million tons of coking coal and seven million tons of iron ore. By 1975, these figures are expected to swell to 20 million tons of coking coal and 10 million tons of iron

Three of the spurs to steel production are Japan's construction, automobile and shipbuilding industries. In the past 15 years Japan has led the world in shipbuilding, producing last year about half the world's new tonnage. The five yards of one shipbuilder alone turned out more tonnage than the combined yards of Great Britain.

So much for some of the factors at work to expand the Japanese economy as we have come to think of it today—a giant production machine turning out everincreasing quantities of a vast array of items from ships to shoes, tape recorders to bulldozers. But what about those factors mitigating against continued growth in the present form? What about influences within the Japanese economy that may restrain growth gauged by mere increase in size and numbers alone? Will Japan continue simply to turn out an ever-swelling flood of steel, ships, motor cars, TV sets, radios, tape-recorders and such?

I doubt it. Last June, the government adopted the "Economic and Social Development Plan to 1975". It is a plan presented to the Prime Minister by the Japan Economic Council and the Japan Economic Planning Agency.

Its essence is a deliberate slowing of economic growth in order to emphasize internationalization of the national economy and to improve the quality of life for the Japanese people. In contrast to an average growth rate, in real terms, over the period 1965-69 of 12.5 per cent, the plan projects an average annual growth rate, in real terms, between 1970 and 1975 of 10.6 per cent. One factor to be considered here, however, is that the actual rate of growth of the national economy in Japan has always run ahead of official forecasts, and the privately run Japan Economic Research Centre, for one, believes the new official estimate of annual growth is too slow. The centre believes an average annual rate of 12.4 per cent to 1975 is more realistic. The official government plan foresees a jump from 1969's GNP of \$145 billion to a 1975 GNP of \$394 billion. The research centre's estimators believe the 1975 GNP will be \$459 billion—no mean growth, whoever vou believe!

Japan's per capita income in 1969 was \$1,285 compared with \$1,509 for the United Kingdom and \$1,253 for Italy. She is aiming for a per capita income in 1975 of \$3,590—a level beyond that of West Germany. According to Dr. Saburo Okita, head of the Japan Economic Research Centre, Japan could have a GNP in 1980 of \$700 billion and a per capita income of around \$5,000. Given these predictions and weighing them against the known factors that militate against successful achievement of them by following existing patterns, we can see that Japan must charge radically to reach her ultimate goals.

The object of Japan's current plan, among other things, is to reduce the increase in consumer prices from about 5 per cent to below 4 per cent per year and to shift the weight of investment from the private to the public sector in order to provide, in particular, more adequate housing. There are many influences at work to change the existing pattern of industrial development in Japan. There is the rising expectancy of a more aware and more affluent public. They want better housing, better diet, less pollution, more efficient transportation, fewer tension-producing influences, more recreation time and wider recreation vistas, better education and medical facilities, to name but a few.

Then there is the very apparent and critical threat of pollution, posed to a large extent by expansion of industry in its present form and by the rapid and unregulated pace of urbanization.

Perhaps one of the most critical factors affecting the industrial pattern, an imperative for change, is the acute shortage of labour. Combined with other forces, these have undoubtedly been responsible for the switch in economic emphasis reflected in the plan. There is good reason to believe that the plan is merely a first step in a series that will again revolutionize Japan's post-war industrial revolution.

It is my view that her demand for resource materials will grow tremendously to the end of this decade. I believe it could then level off and, shortly after, even begin a moderate decline. I believe, too, that she can and will maintain her rate of national economic growth, but in different form and upon a different base. I see Japan's whole economy changing to the point where the Japanese economy of 1985 will bear little resemblance to the Japanese

nese economy we know today. This will depend upon the pace at which some home industry is exported to other countries of the Pacific basin. To my mind this dramatic course will have great and beneficial repercussions through the whole region.

I share the view, recently expressed in *Executive* by Mr. N. D. Modak, who suggested Japan wants to be, not only among the most advanced nations economically, but among the most socially sophisticated. An economist of international reputation, Mr. Modak is a man with a sound grasp of the Japanese way and an excellent knowledge of the Japanese economy. He believes that the Japanese have shifted their old aim of being number one economically to the wider aim of also making the Japanese people the best fed, the best dressed, the best housed, the best educated and the best cared for people in the world.

Mr. Modak echoes views long held by the council. He, like us, sees the present trade pattern, heavy in Canadian export of resource materials, continuing. But he too thinks Canadians should not expect this to continue indefinitely. Instead, Japan will require highly sophisticated capital goods and a wide range of durable and non-durable goods. He sees opportunity for Canadian exporters in almost all types of Canadian goods and services, from prefabricated houses and insurance services to washing machines, furniture, beef and candy bars.

In relation to another interesting and significant trend within the Japanese economy, the export of industry to surrounding labour-rich countries, Mr. Modak believes this will accelerate.

It would not surprise me to see Japan completely out of production of many of the items for which today she is world famous. The other day I read an item in which a leading Japanese shipbuilder was quoted as prophesying the day would come when shipbuilding around the home island of Japan would be a thing of the past. This may be a bit far-fetched, but who can tell? Mr. Modak sees a Japan that will concentrate upon high value-added stages and industries in Japan.

Japan recognizes the need for international specialization of production; countries must concentrate on producing those commodities in which they have an advantage in costs technology and know-how. This view of international specialization in world trade is one which Canada might also adopt to advantage.

Mr. Modak further stated:

Japan will also be vitally interested in investment abroard for establishing raw materials for her industries. However, since Japan will be progressively less interested in unprocessed raw materials, her foreign investment will be made increasingly in projects which involve processing of raw materials to a progressively higher degree abroad.

This harks back directly to what I earlier said about private Canadian interests taking up this very question in negotiations with their Japanese colleagues.

There are so many aspects of the Japanese economy that could be dealt with, so many facets of interest and

value to would-be Canadian exporters. There is no illiteracy in Japan, a country where 75 per cent of students seek education beyond the compulsory level and have more than 900 institutions of higher learning to accommodate them. One in five Japanese households has an automobile, one in four a colour television set. The average accumulated savings of a Japanese household is now about \$3,150 and rising each year. Disposable income has risen from about \$300 in 1960 to more than \$1,100 in 1969. The average Japanese is expected to enjoy five times the leisure time he now does within the next five years. Perhaps I should conclude now with a few words about investment and then allow time for questions.

I have been assured on the most reputable authority that, insofar as Japanese investment in Canadian resource development projects is concerned, there is no discrimination as between debt financing and equity financing. It is strictly a matter of what each individual project requires. For instance, in a case where initial exploration and development costs are concerned, the Japanese must put up risk capital for an equity in the venture, because funds would otherwise be lacking. However, in the case of a producing concern, direct loans to provide stability and expansion have been found to be satisfactory. Japan's chief aim is to secure a stable supply of resource materials in a manner consonant with Canadian policy. Japanese investors often wish to have a reasonable share of capital investment to ensure supply under long-term contracts but, as a matter of principle, Japan does not seek to control Canadian industry by means of investment. It may also be of interest that there is no record to date of the Japanese Government disapproving an application for investment in Canada.

As to Canadian investment in Japan, the general conditions are pretty well outlined in our pamphlet on capital liberalization, of which you have copies. It is difficult to arrive at any figures for Canadian investment in Japan so far but I think it safe to say that it is very small and confined to our handful of large international corporations. This of course does not take into account investment in the Japanese stock market. I am sure you are all aware that last summer a Canadian investment house launched a mutual fund known as the Japan Fund dealing exclusively in investment on the Japanese market. According to Japanese sources 78 of the leading manufacturing corporations in the United States have established subsidiaries or joint venture companies in Japan and this list includes only those foreign companies who hold more than 20 per cent equity. In the same class, 14 of the top 100 non-American companies had established in Japan. Of 390 foreign-capitalized manufacturing firms in Japan, 114 were related to foreign enterprises of the type known as international. A survey by the Japanese Ministry of International Trade and Industry indicated that 653 foreign firms with more than 20 per cent capitalization accounted for about 1.4 per cent of the sale of all corporations in Japan. However, the survey indicated they had a relatively higher earning power.

One last area that may be of interest, although Canadian banks play no part in it, is a new trend in foreign banking in Japan. Traditionally, foreign branch banks in Japan pretty well stuck to foreign-related transactions.

However, by the end of fiscal 1969, when the tight money pinch was on, loans by foreign banks to domestic Japanese concerns reached \$280 million from zero. One explanation offered was that the Bank of Japan has few if any direct dealings with branches of foreign banks. It is difficult, therefore, for the Bank of Japan to influence their operations and compel them to follow suggested guidelines regarding tight money. In the pinch, the Japanese businessman turned to the only source of money, the foreign branches.

Mr. Chairman, there remain many important aspects of this subject left untouched—textiles, comparative wage rates, the strong suggestion by some foreign sources of Tokyo emerging as the dollar capital of Asia, despite strong reservations on the part of the Japanese Ministry of Finance, and the possible establishment of Canadian trading companies. I will, however, welcome any questions you or the honourable senators may have.

I should like to conclude my remarks by quoting from an address I gave to the Vancouver Board of Trade in February, 1967.

I feel that Canada could take a lead in exploring the setting-up of an economic association between the United States of America, Japan and Canada, with perhaps later on Australia and New Zealand, and perhaps still other countries such as the Philippines. We might then have a group of countries linked economically in a somewhat similar manner to the European economic community. Of course, there would be many difficulties to be overcome, but I do not feel they would be insoluble.

I have a very deep faith in the future of Japan, and I know the Japanese hold Canada and Canadians in the highest esteem. We have almost unlimited possibilities for the future of the world, and succeeding generations may rightly blame us if we do not grasp our opportunities.

What I have just quoted, I believe in even more strongly today.

The Deputy Chairman: Thank you very much, Colonel Houston. Honourable senators, we have before us also a document entitled "A Submission in Regard to Canada's Relations with the Pacific, Noted for Consideration by the Standing Senate Committee on Foreign Affairs." Is it your wish that this be included in our proceedings?

Senator Carter: I would like to propose that this be appended to our proceedings, or it could be continued here. I would like these references and this other material to be listed somewhere in today's proceedings, for the benefit of the general public who will be reading today's proceedings.

The Deputy Chairman: Is it your motion, Senator Carter, that the submission be made an appendix and that the publications be listed by name?

Senator Carter: Yes.

Hon. Senaiors: Agreed.

(For list of documents see Minutes of Proceedings)

The Deputy Chairman: As usual I would ask honourable senators to indicate whether they have questions, I now call on Senator Yuzyk to start the questioning.

Senator Yuzyk: Colonel Houston, first of all I am sure I express the sentiments of all of the members of this committee when I say that we are happy to have you before us and that we thank you particularly for making available to us all of this information, which, of course, will have a very important bearing on our future relations with Japan.

Personally, I have always been aware that Japan was a very progressive country and that the people in Japan constituted a very progressive nation. But the facts that you have presented to us today prove beyond doubt that we are dealing with one of the great powers of the world, particularly in the economic field. Therefore, Canadians should wake up, in general, to the tremendous potentialities and possibilities that there are not only for trade relations with Japan but also other relations such as cultural, diplomatic and political and the like.

Since I am not personally involved in the field of trade or business I will not ask questions that deal specifically with such matters. I know that others here will have numerous questions on those aspects so that in that respect I will confine myself to questions on the general benefits of trade between Japan and Canada.

You stated in your submission that the Canadian balance of trade is favourable and will continue to be favourable, which seems to speak well for our trade relations, and you also state on page 3 that markets in Japan for Canadian manufactured goods exist. You say that more imaginative, dynamic and persistent Canadian salesmanship could probably have changed our trade mix before now.

Not so long ago we had Mr. Pope before this committee commenting on this particular aspect—and I should like to get your point of view on it—he said that Japan, as a matter of deliberate policy, buys from Canada raw materials in their most unfinished state and thus creates few jobs for Canadians, while Japanese exports to Canada consist for the most part of highly finished goods.

It would appear that we are not benefitting as much as we could from this favourable balance of trade. Are there any resource areas in Canada in which we can be competitive in Japan?

Mr. Houston: What do you mean when you say resource areas, senator?

Senator Yuzyk: Well, we have to compete for trade, too. Japan is buying raw materials for the most part and we do not, according to Mr. Pope, benefit a great deal from that. First of all, would you care to comment on that aspect?

Mr. Houston: With all due respect to Mr. Pope, the gentleman you quoted, as I mentioned in my remarks today, the time has come when it behooves Canadians, the Canadian mining people and so on, who are settling contracts with their Japanese counterparts, to think very carefully about the question of secondary industries in connection with their deals. I also said in my remarks

that I believe the time is coming or has come when they will find the Japanese quite receptive.

Now, with respect to such words as "deliberate policy" to do something, I must say that the Japanese have been trying to up their standard of living as quickly as they can.

Senator Yuzyk: And they have been very successful compared to most of the countries of the world.

Mr. Houston: Yes, I agreee that they have been very successful, but I think that statements which tend to denigrate what a country is trying to do—and specifically a country which is going to be our second largest trading partner—do nothing but harm. I would also say to Mr. Pope that if he had known some of the things that are under discussion now between Canadian and Japanese businessmen I doubt if he would have made that statement. I can say without reservation that compared to almost any nation in the world Canada has the greatest opportunity to trade with Japan. I would say that on television or in any other place or before any other committee. I would say it because the Japanese have a great regard for Canada.

I listened to what Mr. Pope had to say, and, if I might digress for a moment, I must say that the image of Canada in Japan at Osaka in Expo '70 became the highest of any nation in the world. I was there. I was there for two weeks and I saw many of the top Japanese industrialists, like Mr. Inayama, who is President of Nippon Steel the second largest steel company in the world. And I could mention a few others and I know their feelings about Canada. Now, we can sit back and complain or we can bargain just as hard as they can.

I have seen General Macnaughton sit across the bargain table from the Americans, and if there was ever a tougher bargainer in this world I have never seen him. In the Second World War Canadians did more, perhaps, than any other country in the world when they wanted to do it. I still think we can do it. But there is no use in sitting back and complaining. We should get out and use our ability and use all of the energy we have and are capable of. If we did that I do not think there would ever be statements made such as the one Mr. Pope made.

Senator Yuzyk: That helps to explain the situation, but the fact remains that Japan still has national goals and objectives which it is definitely pursuing and is able to pursue because of the type of economy it has and the methods of administration which it has. In Canada we are at what I would call a great disadvantage with respect to Japan because Japan deals with specific companies very often, or specific provinces, shall we say. On the other hand, we do not have, or do not appear to have, any national objectives or national co-ordination of our trade relations with Japan. Do you think that that can be achieved in Canada? If so, how?

Mr. Houston: That is a large question, senator. However, I would again repeat what I have already said, that I think Canada and Canadians could do anything they wanted to do. After the Second World War the Japanese established a body known as Keidanren. This consists of

the leaders of their top industries. This body is also known as the Economic Cabinet. That is not its official name; it is just a term that is used to describe it. This body reports directly to and has access to the Prime Minister of Japan. I believe, Senator Yuzyk, that there is a great cohesion between the Japanese government and Japanese businessmen.

Senator Yuzyk: And this works to their advantage?

 $\boldsymbol{Mr.}$ Houston: It works to their advantage tremendously.

Senator Yuzyk: How much of this would you like to see applied here?

Mr. Houston: I feel very sorry that we are not doing more in this area in Canada because I am absolutely sure that more can be done. We have, of course, different problems because of the size of our country, and we have to face the fact that there are regional differences, but many times—and I hope you will forgive me if I appear to be getting into the area of politics—I feel that these are overstressed. It was suggested in the White Paper on Foreign Affairs that so far as the Pacific was concerned we should set up in Canada a Pacific Economic Advisory Committee. In our submission we state that we feel that we can go further than this because the idea is a very good one. I wrote to Mr. Pepin stating that I felt that we should get going on this right away. However, I think we could put more teeth into it.

Senator Yuzyk: Therefore you would like to see some kind of a national policy expressed and carried out by the Government with respect not only to Japan but to the other Pacific countries as well?

Mr. Houston: I, as an individual, certainly think that we could do a great deal more in this respect.

Senator Yuzyk: Has the Canada-Japan Trade Council been bringing this to the attention of the Government and the appropriate departments of Government?

Mr. Houston: Yes. When the White Paper came out and this Pacific Economic Advisory Committee was suggested, I wrote to Mr. Pepin—and the letter is not confidential—and I had a positive reply back from him. However, I shall be giving a speech in Banff very shortly and will be talking about this subject.

Senator Yuzyk: And there is co-operation from the business interests in this respect?

Mr. Houston: Yes, but I do not think you should put it on the business interests entirely. I think it has to be a two-way street. I believe a great deal can be done, but we must take a positive attitude in this. I think a better feeling should be engendered because the seeds are there and if they are fostered, we can do a great deal in Canada.

Senator Macnaughton: I listened with a great deal of interest to your remarks because although I was not two weeks in Osaka, I had the opportunity of meeting quite a few senior Japanese industrialists. It is quite clear that our chief competitor vis-a-vis Canada is Australia and

they are making a tremendous effort. However, I think we also have a tremendous opportunity as you suggest to cash in and push our trade activity there. You spoke of an Economic Cabinet in Japan, and I assume you meant the co-operation of the government and the business people. How can it be done if we were to adopt the same line? You said "put more teeth into it" and "to take a positive stand". These are very general terms. Can you give us some concrete suggestions? For example, if you had the Minister for Trade and Commerce in front of you, could you tell him off and tell him "get busy, get off your chair and do something."?

Mr. Houston: First of all let me say that the name Keidannen, which is the name of this economic body in Japan, in English is "Federation of Economic Organizations", and, as I say, the top people in this are the leading industrialists, bankers and so on. The expression is used that they are the Economic Cabinet, and this is what I was trying to convey. Now, as to what I would say to Mr. Pepin, I hope I would be very discreet, but I might suggest certain things. I read his testimony before this committee, and I think a great deal is going on now. But I do feel that we could learn a good deal, and I say this in all sincerity. Sometimes we forget how the Japanese have come along. I do not want to hurt anybody's feelings, but I have studied what they have done since the end of World War II. This is a new setup which they have decided upon because they knew that if they were going to get any place, they had to have a spirit of togetherness in industry and government. Now, there are lots of arguments between the two, but nevertheless they have this closeness. I would go so far today as to say that I feel from my experience of 7 1/2 years that we can do a great deal in this direction in Canada. I think that is as far as I can go on that point.

The Deputy Chairman: Perhaps I can say to Senator Macnaughton that in the submission I read:

A strong case can be made for the Japanese having out-paced us in fields such as the relation of business to government and of labour to management.

Senator Connolly (Ottawa West): I need not repeat what has already been said to Mr. Houston. What he has said here today has been very helpful. They have submitted a very good brief. It surveys, and does a good job in doing so, the whole area of Canadian-Japanese commercial relations. I am very interested in the substantive part of the brief, but I would be even more interested, if I am not trespassing on confidential information, in knowing a little bit more about your own organization. At the beginning of your submission you say that the Canada-Japanese Trade Council is a non-profit organization and the membership consists of 425 Canadian and Japanese firms, and three-quarters of these are Canadian enterprises. Would you tell us something about the origin and development of your organization? It seems to me that it has the same kind of objectives in relation to Canada-Japanese relations as perhaps this committee would have.

Mr. Houston: I have no hesitation whatsoever—and I am glad you brought it up, Senator Connolly, because

this has come up many times in the past. It is well known to many people in both government and industry.

First of all, the Council was started in, I believe. 1960 on a very minor basis, with 20 or 30 Japanese trading companies—and I think the Bank of Tokyo Liaison Office in Toronto was in it—there was a Mr. Callaghan, who was a retired Canadian Tariff Commissioner, in charge. I never met him, unfortunately, as he died in June of 1963. It was started by the Japanese—and, I think, very cleverly so, if I may suggest.

In 1963 I decided to leave the Army—and I am sorry to get into personal matters, but this is by way of explanation—mainly because I have two boys who are now 17 and 15; also I had been very interested, since I was in Vietnam, in South East Asia. I saw a great future in Japan, and on my way back from Vietnam I stopped to pay my respects to Mr. Bull, then our Ambassador in Japan. I intended to stay with him for two minutes but two hours later we were still talking, and I stayed for three days. So I went into the Council in 1963.

When I took the job, I said to the Japanese, "I will take the job if there is no question of other than two-way trade." These were my remarks. Many people in this room know me. You can check on my record and the Houstons of the Ottawa Valley. Senator McNamara and I know each other. I have appeared before the Wheat Board several times, and so on. Sometimes perhaps I have become a little carried away with annoyance because we should be getting on a little faster, but I have faithfully tried to carry out this job. So more of the money comes from the Japanese than any other source today. Again, our pamphlets, my speeches are an open book. I have many dealings with our cabinet ministers and with provincial premiers all across the country, and so forth. So this is the origin of the Council.

Senator Connolly (Ottawa West): I hope you do not think for a moment that I wanted to be critical, because what I am coming to is obviously going to demonstrate that that is not so.

I think that an organization of this kind is an important factor in developing the kind of trade relations that Canadian business would like to have with Japan. You make many suggestions as to what Canadians should be doing in the way of getting Japanese participation, capital-wise, in Canadian enterprises; that there should be more Canadian added value to a good many of the products that are shipped there; that our own technology should be developed so that we can ship more sophisticated goods. You say that this type of product would be well received in Japan and would be well and favourably sold there by Canadians.

My one concern is this: Are Canadian enterprises, Canadian entrepreneur, responding to these ideas and suggestions, and is your organization making any headway, or do you see any headway being made in respect of a greater mix of the Canadian trade, as Senator Yuzyk used the word?

Mr. Houston: Yes, very definitely, Senator Connolly, but first I would like to go back to your introductory remarks. I did not feel, in any way, shape or form, that

you were being critical at all. I am glad you asked the question.

We are getting ahead. There is a mix, but it is slow. I am a Canadian myself and I love my country. All I am saying is that sometimes we are too lazy, and I think we could get along a lot faster. We have had and have a lot of the good things of this world. Some of the things which are under consideration now, as I said, I think are going to be a revelation in the next year or two in Canada—that is, the talks which are taking place between Japanese and Canadians.

There is one thing I believe could be done, and it has been brought up here two or three times before. There is no reason why we could not start a Canadian trading company or companies. There is no secret about the Japanese trading companies, except that they work hard.

Senator Connolly (Ottawa West): And well.

Mr. Houston: They have a world-wide Telex, and so on. This is one of the things which might be done. I would like Professor Hay to say a word about the mix. And, if I might say, I consider that Professor Hay is now one of the leading authorities on Canadian-Japanese relations. He is doing a book for the Private Planning Association of Montreal which will be coming out in July, and he is a Professor in Economics at Carleton University.

Senator Connolly (Ottawa West): Mr. Chairman, before Professor Hay begins, perhaps I might say that I hold the firm belief that it is not really Government that makes the economy expand and grow; it is the private sector. You are working primarily with the private sector, but you do expect to get a climate set by Government and the prestige of Government behind some of the activities you promote.

I would think that you would want to continue this kind of work and, certainly, I think, speaking for myself—and I am sure from the point of view of the members of this committee—that we would consider this work of yours to be invaluable because it represents participation by the private sector in the development of these commercial relations between these two countries.

Mr. Houston: It is very kind of you, thank you, senator.

Senator McNamara: Mr. Chairman, just before Professor Hay begins, I would like to ask him a question, and he could probably include his replies in his answer to Senator Connolly, because if I read Senator Connoly's mind correctly his thinking is somewhat like mine.

As I understand the Japanese Federation of Economic Organizations, it is a pretty stiffly controlled organization. It is probably more important to Japanese trade than the Establishment, as you might call it, here in Ottawa. I wonder if Canadian business would be prepared to have the Government or this economic cabinet exercise control over their ventures in the way the Japanese trade people are. It seems to me that is important.

Mr. Houston: I would like to answer that, Senator McNamara, before Professor Hay. I have been given luncheon by these people. I would say I personally know

eight or nine of them—the presidents of the banks, and so on. I would go in the other direction, that Government look to their guard very carefully when these people speak. They have tremendous power. When you look at its composition you see names like those of Mr. Inayama, president of Nippon Steel Corporation, Mr. Uemura, president of the Fuji Bank, and so on. When these people speak the Government, I suggest, listens very carefully, and it is not rigidly controlled by the Government at all. This has been my experience, Senator McNamara. I can only speak from a personal basis.

Senator McNamara: I have always felt the opposite, that there was government direction in what they could or could not do.

The Deputy Chairman: Do you care to compare that with the Wheat Board, Senator McNamara.

Professor Keith Hay: I would like to say something about our ability to sell manufactured goods to Japan. Our ability to sell manufactured goods to Japan is declining and this seems to me to be a very serious state of affairs. We are now selling, in fact, a smaller proportion of our exports in terms of manufactures than we were five years ago.

In my opinion the reason why Canada did not have a very large share of the Japanese market for manufactured goods is quite easy to understand. Incidentally this has been a very large market and currently at the end of the 1960s the market for manufactured exports to Japan, totalled in the world, was equal to \$1.5 billion. It is not a small market. If one looks at the structure of that market one finds that it is dominated by three suppliers who have been supplying the market for 15 years, the United States, West Germany and the United Kingdom.

What they have been selling to Japan is firstly, capital goods, equipment necessary for the build-up of Japanese industry. The reason why the Japanese concentrated on these three suppliers is again very simple to understand: those three countries lead the world in investment, research and development and they are in order those countries which produce the largest number of patents, new ideas and new technology each year; and the Japanese very sensibly, in planning their industrial development, bought the most highly sophisticated capital goods they could purchase.

After these three countries one then comes across a group of about six countries which might be called second echelon industrial nations, all of whom have about 2 or 3 per cent of the market. They include Sweden, the Benelux countries, France, Switzerland, Italy and Canada, and those countries have for a period of about 10 or 15 years, been tossing backwards and forwards about 2 or 3 per cent of the manufactured goods market.

When one looks at what we sold to Japan during the 1960s one finds that it was quite heavily accented towards quite sophisticated equipment at that time, namely, office machinery, computer offline equipment like card feeds and machinery that prints material, also aircraft spares, parts and various types of instruments. Over the period of the sixties the Japanese have developed

their own ability to substitute for those markets, and we have not kept up with new products, we have not leap-frogged ahead of them in order to have new products to penetrate into that market.

Unless we concentrate a little more on developing highly sophisticated specialized manufactured goods it will be difficult for us to get back a substantial portion of the Japanese market for manufactures, although it may be true that we will get a larger share of the market for semi-processed goods, raw materials which have been partly processed in Canada or processed to a high level before being shipped to Japan.

Senator Connolly (Ottawa West): This pinpoints a problem, as I see it. Cannot the council stimulate business to produce more and better sophisticated goods, newer goods, newer types of goods, that will take up the slack?

Mr. Houston: If I might interject, Senator Connolly. Over the past five years we have looked with a great deal of foreboding at the way in which money available for research and development in Canada has lessened for many of our industries, whereas in countries like Japan, West Germany and Great Britain, as Professor Hay has said, it has increased tremendously. It is very difficult to understand. That is why the report of the committee headed by Senator Lamontagne should be looked at very carefully by the Government because if we are to compete in this world, although we do a lot of things well, we cannot sit back and just expect that things will happen.

Professor Hay: I must say that I am not really in a position of policy-making in the council. I just feed economic intelligence.

Senator Connolly (Ottawa West): What you have given us has been very good intelligence.

Professor Hay: There are one or two things that we could do. It seems to me that in Canada we do not exchange businessmen with Government departments very much. This is something that the Japanese have done and they have been familiarized with managerial people on both sides. We are still somewhat lacking in developing information system and circulating among Canadian producers and among potential exports markets the new products ideas that have been worked on. There is a great deal of duplication of ideas and there are areas that have been ignored completely whereas they are complementary to what has been done. A little investment in this area might produce considerable benefit.

Senator Connolly (Ottawa West): There appears to be a study among OECD countries on which Canada is represented with a view to harmonizing methods, intelligence and communications systems in the scientific field. Is that making any progress?

Professor Hay: I do not know, to be honest. The Japanese have a central information agency which publishes some 40,000 items of information each year on R and D being carried out in other countries and circulated to Japanese producers. It's a translating agency, an information-providing agency. Just as an idea for keeping

Canadian producers au fait which what is going on, it could be a reasonable procedure to be followed here in Canada.

The Deputy Chairman: Honourable senators, Senator Aird, the chairman of the committee, has arrived. He has asked to remain in his seat rather than take their chair because he feels it might give him an opportunity for asking questions. Senator Carter is next on the list and I will call upon him after Colonel Houston replies to Senator Connolly's observation. Senator Aird will then have a few minutes at his disposal.

Senator Aird: Thank you very much.

Mr. Houston: Replying to Senator Connolly, it is so necessary, as we know, to be positive, and I should not like to feel in any way, shape or form that I am criticizing what the Government is doing, because we are on the way to really doing something for the future. The council acts as a catalyst. That is the best way of putting it. To the best of our ability we try to assist. If we did anything else we might perhaps hinder, and we do have good relations with both governments. We will try to do more than we have been doing.

Senator Yuzyk: On a point of order, Mr. Deputy Chairman, since there was a question on research and development, an innovation has been brought into focus here. We have with us Senator Grosart who was on the Steering Committee of the Committee on Science Policy. Perhaps he might comment on that, as to the state that Canada is in at the present time?

The Deputy Chairman: I would be very glad, Senator Yuzyk, but we have a number of questioners. May I merely say that I am delighted to have some support for the report of the committee; we can use all we can get these days. I think I will leave it, because we would move away from Japan.

Senator Yuzyk: I thought in a general way though, about this state we are in.

The Deputy Chairman: I merely say that our committee report emphasized above all else the fact that we are low man on the totem pole with regard to funding of research industry. This is particularly so in the transfer of technology from Government in-house and universities into industry. That is the main emphasis of our report and I believe we have some support for that position here.

Senator Carter: Having regard to our terms of reference and the objectives that we are trying to achieve in this committee, I feel that this is possibly the most useful brief that we have had to date. My first question is supplementary to Senator Connolly's inquiry with respect to the organization. You have a membership of approximately 320 Canadian companies, the remainder being Japanese. Are the Canadian companies concentrated in British Columbia and Ontario, or spread evenly across the country?

Mr. Houston: The membership is now approximately 450

Senator Carter: You said 420 Canadian and Japanese, of which about three-quarters, or a little over 300, are Canadian. Where are they?

Mr. Houston: There are about 105 in British Columbia, 50 in Alberta, 30 in Saskatchewan, 30 in Manitoba, 60 in Ontario, 65 in Quebec and very few in the Maritimes.

Senator Carter: This question arises from Professor Hay's reply to Senator Connolly with reference to R and D. He says that quite logically the Japanese bought the most sophisticated technology they could find, the main suppliers being the United States, Great Britain and West Germany. I do not dispute that, but one of the problems in dealing with the United Kingdom has always been delivery. How have they managed? Have they been better customers or suppliers to Japan than they are to Canada? Is this market so important to them that they have ensured timely delivery?

Professor Hay: I suppose a glib answer would be that the Japanese were so keen on obtaining the technology involved that they were prepared to wait. The British actually have the smallest of the three shares; it is only about 10 per cent. One of the means by which all three countries have in fact acquired this share has been entry into a fair number of joint ventures with Japanese companies, such as technology-sharing contracts. In these instances the overseas country would provide some of the machinery and equipment required to produce the process or product that the Japanese wished to produce at home. I suspect that after they had entered into a contract with a British firm they were content to wait until the equipment could be moved off he British docks.

Senator Carter: That is more support for your R & D, Senator Grosart.

The Deputy Chairman: I would say for yours also, Senator Carter; you are a very active member of that committee.

Senator Carter: Thank you. As I listened to these fantastic figures and the tremendous expansion in growth quoted by Colonel Houston which is to take place in four or five years, I could not help thinking that it is like the first million: "The first million is the easiest". Now Japan has her first billion; she is out in orbit, but there is no doubt that in the face of these figures Japan is the key to the development of the Pacific Rim, particularly with respect to the smaller countries. To what extent would that apply to the development of China?

Mr. Houston: Are you referring to mainland China, senator?

Senator Carter: Yes.

Mr. Houston: Could you make your question a little more precise, please?

Senator Carter: You say that as she expands Japan will export her industry to smaller countries, such as Taiwan, where there is plenty of labour, and concentrate on other things so that her whole economy will change

within five or ten years. I can understand how that would be effected with respect to Taiwan, The Philippines and other countries. What impact would it have on mainland China?

Mr. Houston: If they export their industry?

Senator Carter: Yes, if they follow this general policy. Are you going to leave China out of this and concentrate on the other countries?

The Deputy Chairman: Perhaps they are already doing it in Hong Kong; if we start from the Japanese presence in Hong Kong and move inland and upland in China we might arrive at an answer. I know Professor Hay has studied this.

Mr. Houston: The question is very difficult, as you know, Senator Carter. First of all, Japan does not recognize mainland China, or vice versa. They do business.

Senator Carter: Yes, I know they do business with them; that is the whole point. Mainland China is Japan's best customer at the present time.

Mr. Houston: No.

Senator Carter: Who is their best customer?

Mr. Houston: The United States; there is no comparison.

Senator Carter: Is China not fairly high on the list?

Mr. Houston: I do not think China is as high as Canada.

Professor Hay: To give you some idea of the relative magnitude, Japan's 10 best customers in 1970 were the United States, with \$5.9 billion; South Korea, with \$0.8 billion; Hong Kong, \$0.7 billion; Taiwan, \$0.7 billion; Liberia, \$0.6 billion, made up largely of ship exports, of course; Australia, \$0.6 billion; mainland China, \$0.6 billion; then Canada. In fact, there was only about \$7 million difference between their exports to mainland China and to Canada in 1970.

The Deputy Chairman: We are sixth then.

Professor Hay: No, I am sorry, Senator Grosart; we are eighth.

Senator Carter: I will not pursue that too far. The purpose of this committee and our exercise is to try to obtain some idea of the form and direction which our foreign policy should take with respect to the Pacific Rim. Naturally we have to take into account the main factors, an overpowering one being the tremendous industrial capacity expansion on the rest of that area. You have already mentioned that, but in your submission you compare Japan to England in the nineteenth century. Being close to the Continent, they were interested in its stability, particularly with respect to relations between France and Germany. Japan is now interested in stability between the two giants, Russia and China. In my opinion this is the number two factor which Canada has to take into consideration. What course, in your opinion, should Canada steer between these two objectives?

Mr. Houston: I am not a trading man and no longer a military or political man, Senator Carter. However, I might go this far: I believe that Canada has the greatest chance, not only with regard to trade with Japan today, possibly than she has ever had with any country in her history. I feel that we should trade with any country in the Pacific Rim. I would suggest, however, that we should be very careful in deciding where we wish to put our best efforts, who are going to be our best trading friends and perhaps our best friends.

The Deputy Chairman: Senator Carter, if you do not mind, perhaps I could come back to you and now call on Senator Aird.

Senator Aird: Thank you very much, Mr. Chairman. First of all, I would like to apologize to Colonel Houston for my late arrival. It was just unavoidable under the circumstances, and I regret very much I was not here to hear the brief. I would also like to express my personal thanks to Senator Grosart for, I am sure, very adequately stepping into the breach.

Obviously, I may be asking some questions you have already answered. I have two in mind. Following particularly on what Senator Carter has just asked and your reply, I did notice on the last page of your brief you suggest:

Canada could take a lead in exploring the setting up of an economic association between the U.S.A., Japan and Canada, with perhaps later on Australia and New Zealand, and perhaps still other countries such as the Philippines. We might then have a group of countries linked economically in a somewhat similar manner to the European Economic Community. Of course, there would be many difficulties to be overcome, but I do not feel they would be insoluble.

You just made the statement that you believe Canada has to be very careful in choosing its best trading friends, and also its friends. Could I ask whether or not this belief of yours, this suggestion, in effect of a trading bloc, is actively being pursued in Japan? Is there a real stimulus to this in Japan? Is there any interest in it?

Mr. Housion: From my personal experience, there is a very definite interest in it. First of all, the Japanese were the first to start the Japan-U.S. Businessmen's Association, then there was a Canada-Japanese one, Australia-Japan, et cetera, and now we have this Pacific Basin Economic Co-operation Council. Often we in the western world say, "Ah, but now what are they up to?" I have heard that said many times. On the other hand, I have not seen any evidence during my 7.5 years on this Council of anything but Japan wanting to get together with Canada

I can say that a lot of high up Japanese would love to become Canadian citizens if they had equal opportunity here in Canada. When I say equal opportunity, I want to explain that. In other words, they would come from very good jobs in Japan, but they realize that when emigrating to another country you are faced with a lot of things before you rise up to the same position. But they have

the greatest interest in Canada. I have stayed with them in their homes and have studied them as closely as I possibly can, although I am by no means an expert, because you never become an expert.

I should like to return to what you said about our friends. I said we should put the greatest emphasis on those people who are our friends, but we should trade with everybody in the Pacific. This is the only thing I would stress. I think the Japanese are crying out to really get together with us. I do not say it applies only to Canadians. There has been this great confrontation with the Americans over textiles, the Mill's bill and so on. But there have been a great many good Americans in this respect. In November I spoke to the World Affairs Council in Norfolk, Virginia, at their request, because this is part of the area where a lot of this stemmed from. There are a lot of very good people in both the United States and Japan who feel there should be really close relations between the two countries. I repeat, I think the Japanese have a greater fondness for Canada today than any other country in the world.

Senator Aird: So you give me a general affirmative to my question?

Mr. Houston: Yes.

Senator Aird: Going back to your remark that you feel Canada could take the lead, I ask you: how?

Mr. Houston: This question came up in connection with the White Paper on the Pacific, which of course we are dealing with, the question of the advisory committee.

Senator Aird: CAPAC?

Mr. Houston: No, this is the one suggested by the Canadian Government in the White Paper.

The Deputy Chairman: It is the Pacific Economic Advisory Committee.

Mr. Houston: The Pacific Economic Advisory Committee. The only thing we suggest is that it should not be advisory; that we should set up a body here in Canada as quickly as possible to get down to the nuts and bolts of how this can be done.

Senator Aird: I should now like to ask a general question. I have been reading recently that Japan is in a depression inasmuch as last year its GNP increased only 8 per cent! This may be slightly beyond your terms of reference, and perhaps you will decline to answer the question directly, but I have asked it of several other people. Inasmuch as there is obviously a continuing increase in the foreign reserves, do you have any opinion as to revaluation of the yen? It is a very important point, as it relates to everything you are talking about, and I do not ask the question lightly.

Mr. Houston: I fully realize that, senator. Naturally as the economy of a country improves as quickly as it has done in Japan there is bound to be a great deal of pressure to revaluate. This happened with the German mark. The Americans, of course, have had problems with

their economy in the last year. However, we should also remember that the Japanese standard of living is still considerably below that of the United States and Canada. When they are going to revaluate is, I think, an open question. I realize that this is not a good answer, but it is very difficult for me to rub the crystal ball and say exactly when it will happen. That is as far as I can go. Perhaps Professor Hay would like to add something to that.

Professor Hay: I have been guilty of in fact predicting when it will happen, to Colonel Houston's embarrassment sometimes, I am afraid. It seems to me that if we were to take the economic plan and say that Japan followed it in the next five years, then this would result in reserve holdings of about \$5 billion in about 1974. As far as I can see, the International Monetary Fund and other major trading countries simply could not allow Japan to acquire such an extraordinarily large amount of international reserves without bringing very high pressure on them to revalue. Therefore, I believe that when the premiership changes in Japan there will be a movement towards revaluation.

My guess—and this is speaking as an academic; you always allow wild guesses, I understand—is that revaluation might easily occur in two 5 per cent steps. One I guess would be in 1972 or early in 1973 and the other one about 1975. What the effect of this revaluation would be on Canadian trade I will be a little more agnostic on, because I do not think it would have very much effect on our trade. But I would amplify that more, if you would like me to do so.

On what would be the effect on Japan's role in the international trading group in the Pacific, I think that even to consider the construction of such a group, to emphasize more the businessman's conference, the academics conference, to develop more economic analysis of this problem, could not go very far if there were to be a real difference of opinion, say between the United States and Japan, on the matter.

Senator Aird: Thank you very much for the amplification of the reply, because obviously my two questions are related. As an example, there is no doubt that one of the problems which Britain is facing today is the valuation of its currency as it makes application to the European Common Market. In a similar vein, it seems to me that with the great strength of the Japanese and the strength of their currency and with the current weakness in the U.S. dollar, the putting together of this trading bloc might be a very difficult thing.

Senator Rattenbury: Senator Aird's last question was going to be my first one, about revaluation. However, looking through the pamphlets which have been given to us, I notice one which says "Industries liberalized for foreign capital, direct investment", and so on, and then they go up 60 per cent. Is there a great nationalistic trend in Japan? In other words, for the markets to be opened does there have to be a foreign investment involvement?

Mr. Hay: If Japan were to enter into an international arrangement with, say, three or four other trading part-

ners, would there have to be further liberalization of foreign investment in Japan? Do I understand that this is the question?

Senator Rattenbury: In part, yes.

Mr. Hay: I think the answer to that is probably Japan would have to be prepared to allow 100 per cent ownership in rather more industries than she is today. But if you look at what is happening in Australia, for instance, the Australians are asking for Australian participation in mineral development. In fact, one or two of the Japanese plans for development of Australian resources have been delayed by problems of finding Australian interests. I believe that several of the potential members of a Pacific trade bloc would be reasonably content with at least partial constraints on foreign ownership. So I do not think it is quite such a serious barrier as the revaluation problem.

The Americans, of course, would make the most protest about not having total entry to the Japanese market. Some of the American companies which have operated wholly-owned subsidiaries in Japan have discovered that there are serious drawbacks to not having a Japanese partner who is totally familiar with the marketing, labour relations and management procedures in Japan.

Senator Rattenbury: The same as some of our Canadian companies, such as...

Mr. Hay: Yes, so I think there may have to be a natural trend towards joint ventures, whether exactly 50-50 or not is another question.

Senator Rattenbury: I think I am right in saying that for several years Japan has had a closed door policy, since she became more sophisticated in her own manufacturing processes. Is that correct?

Mr. Hay: There have existed for a long time foreign corporations operating in Japan, some of which date from prewar, some of which date from the early postwar period; but the liberalization of foreign investment in Japan really got under way in a big way in 1957 and then proceeded in three stages up to now. It is scheduled to reach a position in which it is not a question of what you can go into but what you cannot go into. There will be some sort of negative listings published probably in 1972.

Senator Rattenbury: This seems to be a very broad listing here.

Mr. Hay: What you have now is a positive listing and is the sort of breadth of the currently open Japanese industries. Before 1967 it was possible to invest in Japan but it was necessary to go through a great network of Japanese governmental agencies to secure permission to do so. But now it is on an automatic approval basis, in those industries mentioned.

Senator Rattenbury: I notice one product down here which was of some interest to me at the time, which was totally banned—a Canadian product—and not allowed to be imported into Japan, while a similar product, albeit

an inferior one but in a similar category, was sold in parts of Canada. And now I see it on here as being liberalized as long as there is 50 per cent participation.

Mr. Houston: Senator, it is interesting that just before we came up, we note that Seagrams are now negotiating with the Kirin company in Japan. I expect that it will come to fruition before very long. It is just a question of the ministry of finance approving it. It is a fifty-fifty deal. I believe it is in distilling.

Yesterday I had in my office Mr. Hargrave, who is the marketing commissioner for Alberta. He reports directly to Premier Strom. We were discussing some of the things that have happened. The Japanese have just asked for 500 or 600 tons of our onions. Potato chips in Osaka have gone over tremendously, and they have asked for a great amount more. This is something which has started...

Senator Rattenbury: I hope it was by my friends, the McCain's.

Mr. Housion: Possibly. They have just completed a poultry deal with Quebec which, in the Quebec poultry situation, which as you know needs help. It is for three million pounds of poultry.

Mr. G. Guthrie, Executive Secretary, Canada-Japan Trade Council: And a million pounds of Alberta honey.

Mr. Houston: The Japanese now are using increasing quantities of our maple syrup to sweeten their tobacco and they have found it to be so good that they have increased, I think, 100 per cent this year. I am just quoting some of the things which are happening across Canada now. There are two big deals under discussion now which could make a tremendous difference to our two countries. I think you are going to find—as I said before you came in, Senator Aird—that in the next couple of years some things are going to happen which are quite fantastic between Japan and Canada but we have got to put our best effort forward.

Senator Rattenbury: As a matter of interest, in looking through your list of members, I cannot understand why a lot of them are there, but I do not see Seagrams there.

Mr. Houston: They have just started and they probably will be there shortly, senator.

Senator Pearson: I want to see if I could find out what the historical background is to Japan's development, from the second world war up to now—just how and why they developed so quickly. We had the same condition in West Germany. Was it all American influence that started this?

Mr. Houston: I should like to have Professor Hay answer that question, if I may, because it is basically economic.

Professor Hay: It is also a very difficult question to answer. There have been so many books written suggesting that there is a single reason for this that I hesitate to give a snappy answer to it. However, it seems to me that you have a number of interacting forces here. First of all, in 1956 the Japanese adopted an act of parliament which

was aimed at developing the heavy industrial and chemical industry sectors of their economy. Having set that up as a basic intention, then much of their sort of national will was geared to bringing this about.

Senator Pearson: Was that a government set-up?

Professor Hay: Yes, the government of Japan passed an act promoting the development of the heavy and chemical industries.

I can give you the exact reference later, but I do not have it on hand. So the national will of Japan was very much geared to this objective. There was also a strong managerial drive to build up these industries, and you had the very highly educated and disciplined labour force that would react very well to managerial goals. At least it certainly would in the fifties.

Coupled to that, Japan has one of the highest saving ratios in the world. They have savings of about 30 to 40 per cent of the national product every year, and they invest that in new machinery and equipment and other forms of capital.

Senator Aird: Excuse me. Is that over-all savings or commercial savings?

Professor Hay: That is over-all savings. Also, if you look at the distribution of income in Japan you will find it much more directed towards capitalists than towards workers, to use the terms that I would use in class. There is a higher proportion of rent and profit in Japanese national income than there is in Canadian. Therefore, there is a large amount of that investment that is being regenerated by reinvestment of business profits and rents.

You have also a Japanese concern with building up a very competent labour force so that they turned out as many engineers in the 1950s as the Russians did—a feat which was not parallelled by any other country. They have also emphasized investment in research and development, and if you look at the break-down of research and development in Japan you will see that most of it is industry-promoted and most of it is profit-oriented research and development.

Another factor has been that the Japanese have not had very serious constraints on the labour force until recently. If you were to break down the forces behind Japanese economic growth, you would find that from 1955 to 1960 the main force came from increased labour force, higher participation rates and longer working hours.

Senator Pearson: Was that labour force highly trained?

Professor Hay: That labour force was highly trained, yes, and it was being transferred from unproductive or lesser productive areas of the economy. There was a tremendous drift from the rural areas to the urban areas. It was very much as in Canada, as a matter of fact. And also, there was a movement out of the unproductive sector of the economy into the new heavier technical industries which then used this labour much more efficiently and got much more production out of it.

From 1955 to 1960 the main growth came from capital accumulation. That is, if you were to break up the growth impetus into labour, capital and technology, you would find first of all labour, then capital, then, from 1965 to 1970, you would find that the main driving force behind the Japanese economy is not labour, is not capital, but is the adoption of new techniques and processes.

I think that actually the Japanese have followed exactly the right path that economists would predict, because in the early days labour was in surplus. Then, gradually, they built up their capital until it reached a very high level. Then physical capital probably would not give a very high return so that the important thing then was to invest more and more in technology, and that is the stage in which we are now, because there is a great pay-off in that.

Senator Pearson: Is this a deliberate effort on the part of government or of government and business?

Professor Hay: It is a joint effort on the part of government and business.

Senator Pearson: Was it so from the very beginning?

Professor Hay: Yes, from the very beginning. As a student of the Japanese economy I am always amazed at the number of councils, committees, white papers, reports and so on. Everybody has a look at the problem and then they all produce a report and then these reports are gradually assimilated and compared and put together until a sort of consensus arises on how one should go about solving a particular economic problem. The next thing you find is that the prime minister's office has adopted this as the approach to take.

On every economic problem that the economy has been faced with, from the generation of electrical power to, for instance, the catching of more fish, there has been the same kind of study by many different groups, academic, business and government, and the results seem to have been a very high level of analysis, knowledge and coordination which then gets manifested into a policy which both government and business and, if you like, the academic group, can all understand and take issue with in minor ways. But, generally, this is accepted as a reasonable national policy.

The Deputy Chairman: If I may ask a supplementary, Senator Pearson, to what extent, Professor Hay, is organized labour involved in this consensus process?

Professor Hay: There are several different organizations which represent organized labour in Japan. They have contributed to a lesser extent than the managerial leaders of Japan, but we are now seeing something of a change in the power of corporate versus consumer and worker decision-making in Japan. Thus organized labour has now become more and more concerned with consumer affairs and consumer groups are growing up in Japan. Questions about the quality of life are now the predominant questions in the 1970s. Quantity of life seems to have been established and we now have to worry about the quality of the environment. There it seems as if organized labour and consumer groups are going to make the kind of contributions they have not made in the past.

Senator Pearson: Colonel Houston, you suggested at one time that certain Japanese businessmen would like to become Canadian citizens. They would like to establish a factory of some type in Canada. Would they employ Canadian labour or would they want to bring over their own technical men?

Mr. Houston: Canadians, definitely. They just want to become Canadians. I was really establishing the fact, Senator Pearson, that the Japanese have a great feeling for Canada. There is no question that those people wanted to become Canadians in every sense of the word.

Senator Laird: Mr. Chairman, much of the information I wanted to get has come out in just the last five minutes. However, I should like to refer to one short sentence on page 8 of the submission, which states:

A strong case can be made for the Japanese having out-paced us in fields such as the relation of business to government and of labour to management.

It is on the latter point that I should like to pursue the matter a bit further. Specifically, can you state whether or not labour-management relations are in a better state in Japan than they are in Canada?

Mr. Houston: Well, they are certainly very much different in Japan from what they are in Canada. After the war labour was not quite sure in what direction it was going, and so eventually they sat down with management and solved their problems in a very sensible way. The first time I was in a Japanese factory I saw this one man with a red handkerchief-I think he was a foremanaround his head, while the others had white handkerchiefs. I said "What do they have those on for because it is not all that hot today?" And I was told "Oh, they are on strike." I went on to find that there had been a token strike of an hour, and while the strike had been going on for a month or two they had not stopped working, and the union leaders were discussing it with management. They seemed to have straightened out a lot of their differences over the negotiating table while the economy still carries on.

Mr. Guthrie: They tend to avoid confrontation. They feel they are both headed in the same direction and reaching for the same goals. And as long as labour feels that by talking it is getting its fair share, they see no purpose in killing the beast that is supporting them. I think probably the fundamental difference is that the great majority of Japanese workers are in lifetime employment. There is very little shifting from one job to another or from one company to another.

Senator Laird: Are real wages in Japan lower than real wages in Canada?

Mr. Guthrie: My best information is that in industries such as the steel industry, real wages approximate to the level in western Europe. However, this is very difficult to calculate because of the vast number of fringe benefits they receive, and this factor again is tied in with being in lifetime employment. There is a feeling of responsibility or obligation as between the workers and employers and

as between employers and workers that does not often exist in our society.

Senator Macnaughton: I should like to add that the Swiss have the same system of employer-labour relations. Rather than going on strike, they get together for what is in the national interest. Now, I have three short questions. On page 7 of your opening remarks you say—"Another key to success in Japan is surely for Canada to offer highly sophisticated manufactured goods." What do you have in mind?

Professor Hay: Well, when I wrote that I had in mind developing, for instance, some of the trade that one can see glimmers of right now. For instance, last year we sold them \$1.5 million worth of radar equipment. We have had a fairly good trade in electrical, measuring, optical instruments, very highly developed pieces of equipment in which Canada has obviously developed a speciality and obviously has an international competitiveness. It does not matter which country you turn to, we would probably be able to match the competition. I can think of a few other items in our mix with Japan which have grown and which clearly show that these are items in which Canada has a real comparative advantage. One of the obvious ones which I think is destined to improve very much in the future is the sale of veterinary medicines, antibiotics and feed concentrates. Since the livestock industry in Japan is about to expand very rapidly and since we have tremendous agricultural knowledge, I think that is a growth area. I think we should think about developing more industries in which we are internationally competitive and not just have as a frontier Canada's national boundaries.

Senator Macnaughton: Well, that brings up immediately the question of R and D. Has the Council made any recommendations to Government on a better tax policy treatment?

Mr. Houston: We have it under consideration right now because we are studying what is going on in your committee, and we will do so.

Senator Macnaughton: Good. Now could I go off on a tangent. Could Professor Hay say something very briefly about housing, pollution, and urbanization in Japan because that is quite a social test.

Professor Hay: I think these are in fact three important problem areas that Japan is faced with right now. There is a basic lack of what I would call social overhead capital in Japan. Japan is committed to building something like two million new houses every year between now and 1975. They have very, very serious pollution problems, so serious that that in my opinion the goals that are being set forth now may not be realizable because so much of the energy will have to be channelled off into solving the problems of pollution. So far as urbanization is concerned, we must remember that these three things are tied together. Sixty per cent of Japan's industrial output comes from an area bounded at one end by Tokyo and at the other end by Osaka. Here you have industry very heavily concentrated in a very small area

and this has led to serious problems of pollution. It has also led to serious social stress, and in the next five years Japan has to ease those problems, and very quickly.

Senator Macnaughton: Could I add one more question? What about population?

Professor Hay: Well, there is a shortage of population in the sense that the labour force is growing very slowly as you probably know. Probably the Japanese attempt to spread industry over more regions and to develop areas like Hokkaido in the north is an attempt to move the population out of its very heavy density now and to spread it out into other areas. The regional economic plan certainly looks for the development of ten big centres which would spread out the population.

The Deputy Chairman: Are there any further questions? We have time for a few more questions.

Senator Carter: I have just two short questions. First of all could Professor Hay tell us what is Japan's public debt?

Professor Hay: Well, you've got me there. I don't know how much it is, but I will say it must be very small because the Japanese Government very rarely runs a deficit, and that is how public debt is built up. So, it must be very modest.

Senator Carter: Then dealing with this tremendous expansion that is taking place, how or to what extent have the rural areas and the primary producers, the fishermen and the farmers shared in this increased wealth?

Professor Hay: There has been a tremendous movement from rural to urban areas, and one of the difficulties that Japan is faced with now is that agricultural policies have been aimed at improving rural incomes, and these have resulted in the subsidization of agricultural prices. Now, as Japan moves to a new food consumption pattern which emphasizes meat, it is going to be very difficult to maintain the subsidization of agricultural prices.

Senator Croll: I am sorry I had to leave but I had to attend another meeting. However, there was a matter which I thought of before I left and I shall ask about it now even though it may have been covered in my absence. How do you define "literacy"? You said there was no illiteracy and that struck me as being a very strong statement. How do you define it? I know how we define it in this country.

The Deputy Chairman: You said you knew what the Canadian definition is.

Senator Croll: Yes, but I am not going to tell you until Professor Hay gives his definition.

Professor Hay: I think literacy in Japan is normally defined as graduation from junior high school. But I would hesitate to push that very far.

The Deputy Chairman: You have said that you know the Canadian definition, Senator Croll.

Senator Croll: Yes, but I am not going to tell you until he has given his.

Professor Hay: I think literacy in Japan is normally defined as graduation from junior high school, but I would hesitate to push that very far.

Senator Croll: Oh no! Ours is Grade VI.

Professor Hay: Well, in Japan that would be Grade IX, I think, or Grade X. I am guessing.

Mr. Houston: I would answer it in a general way, Senator Croll, but I think that their idea of literacy is higher than ours, in so far as the grade is concerned. It is a difficult question to answer. As you say, in Canada—and this is what you said—it is about Grade VI, but certainly they consider Grade II or, I would say, even Grade X. This is to the best of my knowledge.

Senator Croll: They have about the highest standard I can think of.

Mr. Houston: I think the highest standard in the world today.

The Deputy Chairman: May I just say that the happiest note that has been struck, and perhaps the import that might be most desirable to us in Canada, is the concept of having a strike and everyone keeping on working.

With that I will ask Senator Aird to extend our usual thanks to the witnesses.

Senator Aird: Our thanks this morning, Colonel Houston, are more than the usual; I feel that they are extraordinary thanks. I have been here for only the last hour, but I have been most interested to hear what you and your colleagues have said, and I was impressed particularly by the breadth of your answers as you went into economics and various other matters. I believe that your contributions will make a first class record, and, on behalf of the committee, I thank you most sincerely.

The committee adjourned.

APPENDIX "L"

A Submission in regard to Canada's Relations with the Pacific Community for Consideration by the Standing Committee on Foreign Affairs of The Senate of Canada

Submitted by: Canada-Japan Trade Council, Suite 903, 75 Albert Street, Ottawa 4, Ontario. (Telephone: 233-4047)

The Canada-Japan Trade Council is a non-profit organization whose membership consists of about 425 Canadian and Japanese firms concerned with trade between the two Pacific countries. Approximately three-quarters of the membership is made up of Canadian enterprises. The Council's primary purpose is to stimulate, with impartiality, this mutually beneficial two-way exchange.

Despite its fundamental objective, the Council has a very lively interest in Canada's relations with the other nations of the Pacific Basin. It would be short-sighted to focus exclusively on the home islands of Japan. It would be equally so to consider only those regions of Canada which are, at present, the most interested in trans-Pacific development. It is the view of the Council that Canada must assume her inevitable role as a Pacific presence on a nation-wide basis rather than segmented, with some provinces finding it convenient and profitable to do business there while the others carry on along traditional lines.

Important as it is to look at the Pacific region as a whole. Japan stands out as the most important single sector of it. She is the spark plug of the regional economy. It is the strong conviction of the Council that Japan is the key to the remainder of the Pacific basin and, thus, to a large extent, the key to Canada's future economic expansion in the Pacific. A rough parallel might be drawn between modern Japan and the England of the 19th and early 20th centuries, a parallel which might also help to illuminate some of the political problems Japan faces in relation to her neighbours. In the case of England, she was a small, highly industrialized island nation, lying closely adjacent to a continent dominated by Germany and France, two large and powerful nations in rivalry. England's chief interest then was peace and stability, her primary aim economic growth. In diplomacy, her overriding concern was to maintain a balance of power on the mainland. In business, she developed her role as the banker and clearing house of Europe. Today's Japan is in a very similar situation to England, with China and the Soviet Union in the role of Germany and France. Tokyo today is, to a rapidly growing extent, the banker and clearing house of South-East Asia. This is a role that the Council thinks will steadily develop over the next quarter-century. Already much of the backbone of the economies of the developing nations of the Pacific Rim is provided by Japanese enterprise, Japanese capital, Japanese know-how and the hungry Japanese home market.

This is the prime reason that the Council contends that Canada's relations with Japan cannot be divorced from Canada's relations with the nations of the Pacific Basin as a whole or vice versa.

Japan's pervasive economic influence makes her one of the most important political factors in Pacific affairs. This has occasioned frequent suggestions that Japan will, inevitably, revert to her aggressive militarism of the thirties and forties. This view is not shared by the Council which sees Japan's future path in a different light. (See the article by Col. R. L. Houston that appeared in the Ottawa Journal on November 7, 1970.). This is not to say that Japan will not or should not acquire the military capability for self-defence and for ensuring stability in Pacific affairs. Canadians could hardly quarrel with a Japan whose military establishment was maintained for the same purpose as that of Great Britain, the United States, Canada and others of the Western Alliance and was motivated by the same desire to maintain peace and stability, not to seek territorial aggrandizement or political domination. While the Council has no direct concern with this aspect of Japanese-Canadian relations, it must, perforce, be aware to the degree such matters affect the Council's major concern, trade between our two countries.

The rapid and beneficial growth of Canadian-Japanese trade since the signing of the agreement of 1954 is well known. (See "Canada-Japan: the export-import picture", published by Canada-Japan Trade Council, Oct. 1970.). Continuance of this trend is confidently expected to the point where, by about 1973, Japan will be Canada's most important trading partner next to the United States. It is notable that the blanace of this trade has been and, as far as present projections go, will continue to be favourable to Canada. In the past, some concern has been expressed in Canada about the nature of this trade. Critics have emphasized the fact that Canadian exports consist mostly of raw materials, unprocessed or barely processed, while our imports from Japan have been, to a large extent, fully finished manufactured goods. This is, of course, beyond dispute. However, the Council does not believe it tells the whole story. Markets in Japan for Canadian manufactured goods exist. More imaginative, dynamic and persistent Canadian salesmanship could probably have changed our trade "mix" before now. Even as things stand, exports of finished products from this country have gone up and this trend is expected to continue.

It is conceivable that part of the problem lies in the widely-held misconception among Canadian businessmen that Japan is a closed economy. The fact is that Japan buys from abroad a considerable number of items that she herself manufactures. Furthermore, there are many specialized manufactured commodities that Japan can more efficiently import than produce at home. Finally she buys other items which she once produced by labour intensive methods but which can now be more reasonably produced by her developing neighbours. This overall pattern may be expected to expand continually as Japan pursues her national policy of concentrating more and more on areas requiring high-technology and low-labour input. It should also be remembered that Japan, while justly renowned as an exporting nation, still ships abroad only between 10 per cent and 12 per cent of her national output. The rest is necessary to meet the demands of a voracious domestic market. As the labour shortage in Japan becomes more acute, as her determined anti-pollution measures become more stringent, as her tremendous raw material requirements become more exacting, as suitable land becomes less and less available, she will emphasize even more her preoccupation with sophisticated, high value-added manufactures. This means Japan will progressively withdraw from many lines for which, today, she is world famous. Domestic demand will not be curtailed during this transition. On the contrary, all indications are that Japan will continue to experience economic growth at a rate above the world average. This gradual withdrawal of Japan from many lines of consumer goods will undoubtedly open up a massive export market to other nations of the Pacific.

This evolutionary phase within the Japanese economy goes far to explain her importance to the developing nations of the Pacific Rim. Already labour-intensive industries are being exported to adjacent South-East Asian countries who need them in the initial stages of their own economic development. Such exported industries help not only to advance the economy of the host country but, in turn, create and sustain new demands for goods and services. The whole Pacific Basin economy today is in generally beneficial ferment. The dynamism of Japan is largely responsible.

Japan is now moving into an industrial phase in which she must rely more and more on research and development to produce widely selling products. She is faced with product development problems which are little different from those facing all advanced countries. In these circumstances Japanese industry will have to specialize in highly sophisticated products in the future, as must Canadian industry. The long-run outlook for trade in manufactures between Canada and Japan rests on two features; trade of technologically advanced goods in which each country has a comparative advantage, and trade in luxury items, paralleling international exchange patterns among Western nations.

If we accept that Canada must and will play a major role as a full-fledged member of this Pacific community, it would appear to be sensible for us to examine our position carefully and make some early decisions. We should, first, assess how far and by what means we have come to where we are in the relationship. Next, we should decide where and how far we wish to go in the future. Finally, we should decide the best methods and means of reaching our objective. Perhaps the most necessary preliminary step is to create an atmosphere in which a co-ordinated national effort will be most productive. It appears to the Council that, to create this atmosphere, a massive and sustained effort at public enlightenment is needed. Not only should Canada's hoped for role as a Pacific nation be emphasized as a national goal but it should be buttressed by a sound programme of public information or, perhaps more properly, education. Despite our large trade and widening dealings with Japan, despite periodic statements that Canada is a Pacific nation, the average Canadian thinks little of the area and knows very little about its peoples or its possibilities. As yet there is no apparent national consciousness of this new dimension in Canadian life.

Canadian-Japanese relations, for instance, are still bedevilled by myth, distortion and out-of-date conceptions. What intimacy has been established is relatively isolated and exclusive. What knowledge and information there is, is fragmented and not readily available. This pattern would appear to reflect a familiar Canadian phenomenon-the uncoordinated effort of individuals, provinces or regions. If we are truly resolved, as a nation, to enter fully into the life and future of the huge Pacific community, the Council feels strongly that we must do so by a unified national effort. It is difficult for close-knit, nationalistic societies of the region, such as Japan, to understand the Canadian penchant for speaking abroad in a multitude of voices, some of which, on occasion, create a discord. A sustained and emphatic effort to provide better quality information would be helpful. So, too, would be greater and more frequent physical exchanges between us. The written or spoken word cannot hope to create the required understanding of each other as quickly and effectively as personal contact. On countless occasions in the past it has been the visit to Japan of a Canadian businessman that has produced profitable results which any number of letters, telegrams or consultations in Canada would have failed to achieve.

The Council believes it is essential that Canadians appreciate to a fuller degree the basic differences that exist between businessmen here and across the Pacific. The belief appears to be prevalent in Canada that businessmen are much the same wherever they are found. This is a serious mistake and could be a costly one. There are fundamental differences of thought, behaviour and motivation. Unless these are studied and catered to we will have difficulties. It is these fundamental differences that caused the Japanese economy, for instance, to evolve along lines completely different from those of the industrialized Western countries to which Canadians are most accustomed. Indeed, one could say that the only common denominator between the two is the shared experience of industrial revolution. How the economic forces unleashed by revolution were harnessed and the goals toward which these forces were directed differ widely in East and West.

Perhaps national pride has blinded many of us or perhaps it is just that we have not taken the trouble to look closely enough but, whatever the cause, there can be no doubt that too few Canadians appreciate just how sophisticated, how highly efficient the Japanese economy has become in the past two decades. The Council feels that it is vitally necessary for Canadians to be more realistic in appraising the relative economic advancement of our two countries. On occasion North Americans appear to be patronising when speaking of this new force across the Pacific. As North Americans, we Canadians are prone, too often, to believe that we fully share the economic sophistication of the United States. If we seriously propose to take advantage of the vast potential offered by the Pacific Basin, we must be prepared to face the fact that, economically, Japan is several cycles ahead of Canada. There are many reasons for this phenomenal and rapid development. Perhaps the basic one is the cohesion and single-mindedness of a highly-educated, astute and adaptive people that has enabled them to

evolve and consistently pursue a national style and a national purpose. It is very dangerous and deluding to conclude, as some Canadians do conclude, that a single, one-dimensional economic indicator, such as comparative hourly wages in two distinct countries, can demonstrate a greater or lesser degree of economic maturity. Fair comparison calls for much more detailed and varied consideration.

There are many aspects of Japanese social, political and economic organization that might be studied with profit by Canadians. Whether we agree with their methods and decisions, there is no denying that, in many ways, the Japanese have solved some of the problems that present difficulties to our own society. A strong case can be made for the Japanese having out-paced us in fields such as the relation of business to government and of labour to management. They have been remarkably successful in distributing social responsibility equitably among the populace and in cutting down waste created by contending forces within the state.

It is the feeling of the Council that much more could be achieved more rapidly by Canada in her relations with the Pacific region were Canadians to be more positive, more realistic and more practical in their approach. There is still much said and written in this country today about our trade with Japan that is destructive and negative-worse, in many cases, factually distorted or simply wrong. Even an otherwise excellent, even inspirational, document such as the government's White Paper on foreign policy helps to perpetuate some of these damaging distortions and errors. In the section on the Pacific, for example, we find such statements as (page 15 of the pamphlet "Pacific")-"A large proportion of these raw material exports is derived from direct Japanese investment..." The inference is that some unidentified evil is being done by Japanese assistance to our resource industries. The truth of the matter is that "A large proportion of these raw material exports" is not attributable to Japanese direct investment—to Japanese purchases, yes; to Japanese financial control, no. For example, of 16 Canadian copper-producing companies dealing with Japan, in only six do Japanese firms hold equity. Of these in only two do they have a controlling interest. The most frequent form of Japanese financial support to such projects has been in the form of direct, re-payable loans to assist in development. (See "Canadian Minerals and the Japanese Market" published by the Canada-Japan Trade Council, May 1970.).

It should also be added that in many instances, the producer would not be producing anything if it were not for the assured Japanese market. On the same page of the same Government publication may be found other questionable statements such as the reference to "a broad range of direct and indirect import restrictions", "the pace of trade liberalization remains slow" and that investment possibilities in Japan are limited. Thanks to recent sweeping moves by the Japanese Government, capital investment has been widely liberalized and will be more so in September 1971. (See "The Japanese Economy: Continuing Liberalization", published by the Canada-Japan Trade Council, February 1971.). At the

same time, trade restrictions have been removed on a number of items and this, too, is being steadily carried forward. Japan, like Canada, is dedicated to freer world trade. Again like Canada, however, she has particular local situations that require some deviation from this general policy. Such situations only serve to emphasize the importance of thoroughly understanding those with whom you wish to do business. The most disturbing thing about the constant repetition in Canada of such generalizations as those in the white paper mentioned above, is that they could serve to irritate would-be partners, if not something worse. Canada, after all, maintains her own set of irritants in the form of restrictions and certain tariff items. Why, for instance, do we cling to a high protective tariff on motorcycles when there is no domestic industry to protect and such a tariff yields comparatively little in revenue? This is an item of concern to one of our major trading partners. The list of such non-productive, non-essential tariff barriers does not end with that particular item. The Council has long felt that retention of such measures, whose potential for creating unnecessary antagonism and reprisal outweighs their value and weakens Canada's credentials in preaching freer world trade.

On page 16 of the foreign policy pamphlet on the "Pacific", we find the sentence—"Successful exploitation of Canadian trade opportunities in Japan will depend upon the degree to which the Japanese are prepared to modify their trade policies". No hint here of the necessity for Canada to do anything to reach mutual understanding.

The statements referred to are, perhaps, minor lapses in an otherwise imaginative and practical outline of what Canada's pacific policy might be. This council is heartened in particular by reference on page 19 of the "Pacific" pamphlet to possible ways of extending to the rest of the country, what is still almost exclusively a Western Canadian interest. It is the opinion of the Council that the Government's expressed willingness to participate with other interested parties in the establishment of a "Pacific Economic Advisory Committee" is excellent as far as it goes. However, the Council feels that such a committee should be something a little more than advisory. There already exists a rather loose advisory body in the Canadian component of the Pacific Basin Economic Cooperation Council. In addition, interested academics from a large group of Pacific Rim countries have been meeting together annually since 1968 to discuss the economic effects of freer trade within the region. However, what is greatly needed is some agency to translate oratory, ideas and good intentions into action. In the light of the federal nature of Canada, where provincial initiative is such a positive factor, and also in view of the exaggerated regionalism of our extended country, some body is needed as a focal point where matters can be co-ordinated and through which mutual support can be extended. Such a body could probably only be established upon federal government initiative.

The Council believes that our relations with Japan and other Pacific nations have now reached a point where serious consideration should be given to formation of a Pacific trading community in some form. The past few years have seen great changes in the style of international trade to a point where Canadians might well ask themselves whether they will fall behind if they continue to adhere too closely to the old technique of individual business relationships and bilateral arrangements between nations. With the advent of the large regional blocs such as the European Economic Community, and with the increase of state trading, perhaps Canada should now consider some form of Pacific Common Market. The U.S. is our single most important trading partner while Japan will shortly become our second. Both these nations are heavily dependent upon each other economically. It seems possible that this natural triangle of trade could be drawn closer and be made more productive. This could be done in the hope of the inclusion in the arrangement of countries such as New Zealand and Australia, with others to follow progressively. In any event, the Council strongly recommends that immediate studies be undertaken with a view to implementing establishment of a Pacific Economic Advisory Committee. The Council sug-

gests that such a study would be most fruitful if it was to be conducted primarily by acknowledged leaders in the various sectors of Canadian Commerce and Industry rather than by public servants or academics. At the same time, the Council would advocate exploration by the appropriate members of Government of the question of closer economic ties between the major traders of the Pacific Basin.

In conclusion, the Council is convinced of the vital importance of the Pacific region to Canada's future as a nation. It believes the potential benefits to be immense in every aspect of international life. In attempting to establish a solid and beneficent presence as a member of the Pacific community, however, we should not leave all the work to Government or necessarily wait upon Government action. National leadership and a measure of support in the form of congenial policies must be supplied by Ottawa. Beyond that, private Canadian enterprise should be encouraged and enabled to enter fully into the dynamic economic world of the Pacific Basin.

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THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

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Respecting
The Pacific Area

(Witnesses:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

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The Honourable Allister Grosart, Deputy Chairman and

The Honourable Senators:

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Macnaughton

Ex Officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senators Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier Clerk of the Senate

Minutes of Proceedings

Tuesday, March 9, 1971. (14)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Cameron, Carter, Connolly (Ottawa West), Croll, Grosart, Lafond, Macnaughton, McLean, McNamara, Pearson and Robichaud. (12)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

Witnesses: Department of Fisheries and Forestry— Honourable Jack Davis, Minister; and Dr. W. M. Sprules, Director, International Fisheries Branch.

At $5.25~\mathrm{p..m}$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 9, 1971

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of 3.30 o'clock and I see a quorum present. Therefore I declare the meeting regularly constituted.

Before proceeding with the busness of this meeting, I would like to remind the members that next week the Canadian Parliament will be hosting a distinguished delegation from the Council of Europe. I think you have all received some material with respect to this. In preparation for the meetings, there will be a briefing session for the Canadian participants from both houses this evening from 5.45 p.m. to 8 p.m. in the Commons Railway Committee Room. I would like all who are interested to take note of that.

Honourable senators, in a number of our previous meetings with regard to Canadian interests in the Pacific region, the discussion has come around to the ocean itself. There have been references to specific fisheries problems, as well as to more general concerns respecting environmental protection. I know that a number of members have been saving questions, Mr. Minister, in these two areas for today's meeting.

It is a pleasure for me, on behalf of the committee, to welcome the Honourable Jack Davis, Minister of Fisheries and Forestry, with his red rose and all, who will soon assume immense new challenges as minister responsible for the environment. We have found that both fisheries and environmental concerns, apart from their coastal importance, figure largely in many aspects of our relations with other Pacific nations. We are looking forward to hearing the minister's views on these topics.

Following the minister's introductory remarks, Senator Robichaud, one of Mr. Davis' distinguished predecessors in office, has agreed to lead the questioning. Mr. Davis, perhaps you would like to introduce your supporting cast?

The Honourable Jack Davis (Minister of Fisheries and Forestry): Dr. Sprules, of our International Fisheries Branch, is with me today and I trust he will be able to answer those questions which I am unable to answer, honourable senators.

Mr. Chairman, honourable senators: if it suits your procedure, I would prefer to go through the notes which have already been distributed and read them for the

record. Perhaps the questioning could follow the reading of these notes.

Canada has established and maintains good relations in fisheries with other Pacific rim nations whose fleets have developed major fisheries for the valuable marine resources of the eastern Pacific ocean area. Such relations have been fostered through co-operation developed at annual meetings of bilateral or multilateral fisheries commissions having specific responsibilities in the area, through the negotiation of three bilateral fisheries agreements and through exchanges of scientists and administrators on less formal occasions.

Canadian fishermen operate for the most part along the continental shelf of the Pacific coast of North America from southeastern Alaska to California. A few of the larger halibut longline vessels travel north of the Pribilof Islands in Bering Sea and along the Aleutian Islands. while Canadian tuna seiners operate in the southeastern Pacific Ocean travelling south of the equator on occasion. In 1969 the Canadian Pacific fishing fleet consisted of 7,181 vessels including trawlers, seiners, gill-netters, longliners and trollers and employed 10,942 fishermen. The fleet landed 174.5 million pounds of marine products during the year, with a landed value of \$47.5 million and a marketed value of \$87.5 million. Other significant fisheries in this area are conducted by Japan, the USSR and the USA. The species of greatest interest to Canadian fisheries are tuna, salmon, herring, halibut and other groundfish, including Pacific Ocean perch, Pacific cod and Dover sole.

Under the heading of International Fisheries Agreements, Canada is a member of the following six international fisheries commissions responsible for conservation and rational utilization of specific stocks of mutual concern to the member nations:

1. North Pacific Fur Seal Commission (Canada, Japan, U.S.S.R. and U.S.A.)

The Fur Seal Treaty came into force in 1911 and prohibited the wasteful practice of hunting seals at sea during their long migration to northern breeding islands. The annual harvest is taken on the breeding islands under the jurisdiction of the USSR and USA governments and is selectively based on scientific findings. Canada and Japan do not participate in the annual hunt, but each receives a share of the pelts taken by the U.S.S.R. and the U.S.A. The resource has recovered to maximum levels under the commission's management and each member nation shares in these benefits.

2. International Whaling Commission (15 member nations including Canada, Japan, U.S.S.R. and U.S.A.).

This commission is responsible for rational utilization of whale stocks in all the world's oceans, including the north Pacific. Although the Canadian whaling station at Coal Harbour on Vancouver Island has been closed, Canada still works closely with other north Pacific countries to ensure that the whale stocks are managed to provide sustainable annual yields, looking forward to the time when Canadian whaling interest may be revived in the north Pacific.

3. International North Pacific Fisheries Commission (Canada, Japan and U.S.A.).

This commission is charged with the responsibility of ensuring that fisheries of joint interest in the north Pacific ocean are maintained at levels of maximum sustained productivity. The convention under which the commission is established is unique in that it includes the "abstention principle" whereby a member nation agrees to abstain from fishing stocks which are being fully utilized by another member nation, are subject to extensive scientific study and are regulated through legal measures for the purpose of maintaining or increasing the maximum sustained productivity.

4. International Pacific Salmon Fisheries Commission (Canada and U.S.A.).

This commission is responsible for conducting studies of sockeye and pink salmon of the Fraser River system, regulating the fisheries and providing for apportioning the catch equally between the fishermen of the two nations. The commission has been responsible for a general rehabilitation of the sockeye and pink salmon runs of this important river.

5. International Pacific Halibut Commission (Canada and U.S.A.).

The commission is responsible for conducting scientific investigations on which to base regulations designed to provide for the development and maintenance of maximum sustainable yields of halibut in the north Pacific ocean. The stocks had shown the effects of overfishing before the treaty was signed in 1923, and since that time the stocks have recovered in most areas to levels of maximum yield for the mutual benefit of Canadian and United States' fishermen.

6. Inter-American Tropical Tuna Commission (Canada, Costa Rica, Japan, Mexico, Panama, U.S.A.).

The commission conducts scientific investigations to provide data required to maintain yellowfin and skipjack tuna, as well as other species of fish taken by tuna fishing vessels in the eastern Pacific ocean, at levels which permit maximum sustained catches year after year. The main conservation measure recommended by the commission in recent years has been a closed season and a yellowfin tuna quota amounting to 120,000 tons in 1969.

In addition to the commissions referred to above, Canada has signed a bilateral fisheries agreement with the U.S.A. concerning reciprocal fishing privileges for the fishermen of one nation fishing in the fishing zones of the other and two bilaterial agreements with the U.S.S.R., concerning co-operation in fisheries off the coast of Canada in the northeastern Pacific ocean and provisional rules of navigation and fisheries safety in the same area.

Each of the formal fisheries agreements Canada has reached with other Pacific rim fishing nations provides a forum where specific matters of mutual concern can be discussed and solutions reached. The scheduled meetings also provide opportunities for scientists, administrators and industry representatives to discuss any matter of interest with colleagues from other countries. The only nation fishing in the northeastern Pacific ocean at this time with which Canada has no agreements in fisheries is the Republic of Korea.

Relations with Specific Countries

1. JAPAN:

Japan claims a territorial sea of three miles measured from baselines generally following the sinuosities of the Japanese coast. Because the importance of distant-water fishing activities, long-distance aggressive fishing activities, Japan has traditionally refused to recognize the validity of any unilateral extension of the territorial sea or exclusive fishing zones of other nations beyond three miles.

Recent developments in extension of jurisdiction by other nations and Japan's indirect recognition of such limits under the terms of bilateral agreements made for specific fisheries, have eroded the Japanese position to some extent. Japan is also concerned about the development of new fisheries by other nations, such as the U.S.S.R., close to her territorial sea limit. Although Japan's initial position at a new Law of the Sea Conference could be expected to favour limited jurisdiction and freedom of fishing on the high seas, it is likely that she would finally agree to a 12-mile territorial sea if there appears to be general acceptance by the world community. This would not affect Japan's distant-water operations too much and would provide some benefit for her economically weak shore-based fishing industry.

Because of the demand for marine food products in Japan and the dependence of her large distant-water fishing fleets on resources found off the shores of other nations, Japan will continue to object to unilateral extensions of fisheries jurisdictions which do not conform in all respects with existing international law. If a new formula is found at the next Law of the Sea Conference which is acceptable to the majority of nations, it is likely that Japan would find it necessary to obtain certain fishing concessions through bilateral agreements or establish joint ventures with the industry of coastal nations bordering the most productive fishing areas elsewhere.

Japan has established such joint ventures with certain Canadian whaling interests.

Politically the North Pacific Fisheries Convention [Canada, Japan, U.S.A.] is not favoured by Japan because it is publicly regarded as having been accepted under duress immediately following the second Great War and the "abstention principle" embodied in the con-

vention is considered to be a threat to the continuation of her distant-water fisheries. Although Japan has not given notice at any time to terminate the convention, she did request negotiations to revise the convention in 1963 after it had been in force for the mandatory 10-year period.

Discussions in 1963 and 1964 did not lead to agreement on any revision of the convention and therefore it remains in force. With the development of new fisheries in the Convention Area by nations not party to the convention—U.S.S.R. and the Republic of Korea for example—and thus not bound by its terms, and the extension of national jurisdiction over fisheries by coastal states, it can be expected that the Government of Japan will request re-negotiation of the convention once again and will seek elimination of the abstention terminology while agreeing to retain most of the provisions under some other applicable principle to protect special fisheries.

It is likely that Japan will consider the recent Canadian legislation closing British Columbia ports to foreign fishing supply vessels discriminatory now that by special agreement the ports of Vancouver and Prince Rupert have been opened to Soviet supply vessels. A bilateral fisheries agreement between Canada and Japan could be negotiated at any time to overcome this possible difficulty.

2. REPUBLIC OF KOREA

Senator Grosart: Could the minister identify Korea? Is it North or South?

Hon. Mr. Davis: South Korea.

In recent years the Republic of Korea has conducted exploratory fishing operations in eastern Bering Sea followed by commercial operations with a small fleet of catcher and processing vessels. The fishery for salmon in this area is of particular concern to Canada, Japan and U.S.A., as members of the International North Pacific Fisheries Commission. As long as this fishery is restricted to Bering Sea it will have no effect on Canadian salmon runs but if the fishery moves south into the Gulf of Alaska a significant part of the catch would be comprised of salmon bound for Canadian rivers to spawn.

The INPFC at its last three annual meetings has passed a resolution requesting the member governments to do everything possible to prevent the development of the Republic of Korea fishery for salmon and other species of particular concern to the commission under terms of the Convention. Action taken by the governments of Canada, Japan and the U.S.A., in response to the resolution, has not been very effective.

The Republic of Korea considers that existing international law does not prevent her from fishing on the high seas for species of interest. Press reports indicate that the government does not take issue with the principle of conservation of maritime resources but is not in a position to acquiesce in an unduly restrictive management regime that denies Koreans the right to fish on the high seas. Further, the government of the Republic of Korea appears to consider it has a major stake in the northern

salmon production because of a national hatchery program which is alleged to produce millions of salmon for release in Korean streams each year.

Although the Republic of Korea response to a Canadian Note delivered in 1970 indicated that the salmon fishery would not be conducted that season, it pointed out that if Korean fishermen were to be expected to give up such fishing rights some co-operation would be expected from Canada in providing assistance in developing the Republic of Korea fishing capabilities. It will be difficult for Canada to find a mutually acceptable quid pro quo in this regard but every effort should be made to support actively the more effective action open to Japan and the U.S.A.

3. U.S.S.R.

The coming into force of the two bilateral fisheries agreements between Canada and the U.S.S.R. signed in Moscow on January 22, 1971, should alleviate certain problems which were developing with regard to conservation of certain species such as herring and vessel interference on specific fishing grounds immediately off the west coast. Arrangements are included for exchange of fishing data, exchange of scientists and meetings to discuss the effectiveness of the arrangements and any new problems requiring consideration. The agreements will provide a big improvement in fisheries relations between Canada and the U.S.S.R., in the Pacific area, since there had been little or no communication previously.

The major problem which will remain will be the effect of large incidental catches of species of interest to Canadian fishermen by the large Soviet fishing fleet. Although catches of several million pounds are not of particular significance to the Soviet fleet seeking much larger quantities of lower grade fish to fulfil their fleet quotas, such catches of individual species may reduce the stocks to unproductive levels for Canadian fishermen who fish by market demand rather than by quantity alone.

4. U.S.A.

For many years Canada and the U.S.A. have maintained close and effective relations in all matters related to fisheries of mutual interest. Although national positions have not always been identical, the similarity of interests has made it possible to reach acceptable solutions with a minimum of delay. There are many examples of close co-operation between scientists, administrators and representatives of all levels of the fishing industries, which have led to mutual benefits and effective management of fisheries resorces such as halibut and salmon.

A problem of long standing, the interpretation of the AB boundary line in Dixon Entrance that is the boundary line immediately south of the Alaskan Panhandle will likely come to the fore very soon as a result of the recent Canadian declaration of a fishing closing line across the outer boundary of Dixon Entrance. It will be necessary to have early discussions concerning this matter and the initial positions of the two countries will be quite different. Until this problem is resolved, many

incidents involving operations of Canadian and U.S. fishing vessels in the area can be expected, if the respective enforcement agencies follow a strict interpretation of their national positions.

A second problem requiring early consideration results from the ability of Canadian fishermen to intercept salmon bound for spawning streams in Alaska and the State of Washington and the ability of U.S. fishermen to intercept salmon bound for spawning streams all along the B.C. coast. Arrangements have been made to discuss this matter within the next few weeks and at the same time the provisions of the Fraser River Salmon Convention will be reviewed. Although Canada and the U.S.A. share equally in the costs of the commission—that is, the Fraser River Commission-and in the benefits resulting from management of the sockeye and pink salmon runs of the Fraser River, there is an additional cost to Canada in maintaining the river for salmon production. There is an increasing demand by other Canadian industrial interests such as B.C. Hydro to use the river for power development, irrigation and general industrial development. It is clear that if Canada is to continue to assume the responsibility to maintain the waters of the system in an amount and quality capable of producing maximum runs of sockeye and pink salmon, a greater share of the annual catch must be provided for Canadian fishermen to offset part at least of the cost of such maintenance.

The Chairman: Thank you very much, Mr. Minister. Honourable senators, before proceeding to the question period, I am sure you will be interested to note that we are honoured this afternoon in having with us the High Commissioner for New Zealand, His Excellency the Honourable Dean J. Eyre. I understand he was formerly a minister of defence and the holder of a number of other portfolios in New Zealand. He has been described to me as an old parliamentarian from that fine country.

Your Excellency, you are most welcome. We are delighted to have you with us.

His Excellency the Honourable Dean J. Eyre, High Commissioner for New Zealand: Thank you very much, Mr. Chairman.

The Chairman: Today, the honourable Senator Robichaud will lead the questioning.

Senator Robichaud: Thank you very much, Mr. Chairman. First, I wish to join with you in welcoming the Minister of Fisheries and Forestry. Having been involved myself in the responsibility of Minister of Fisheries, I feel rather embarrassed to question the minister regarding the Canadian position, particularly in the Pacific area.

The minister has referred in his brief to six international fishery commissions. As I have just said, I recall having been involved myself in negotiations with those commissions.

Before proceeding with the questioning, I wish to congratulate the minister on the heavy responsibility which he is not taking on as Minister of Environment. Knowing some of the responsibilities that were involved as Minister of Fisheries, I felt some concern about the minister

taking over the office, when he was given in addition to fisheries, the responsibility of Minister of Forestry. That not being enough, he is taking on now the responsibility of Minister of Environment. I know I express the wish of those interested in the fishing industry when I say we feel convinced in advance that, notwithstanding his heavy responsibility, the minister will always have in mind the importance of fisheries in the Canadian economy.

Referring to the six international fishery commissions which are responsible to some extent for the conservation and rationalization of fishery talks, which are of mutual concern to Canada and the countries involved in the Pacific fisheries, I would say that the number three commission on his list, the International North Pacific Fisheries Commission, where Canada, Japan and the United States are partners, this commission is probably the most important and the one which is regarded as affecting most seriously the fishing interests on the Pacific coast. I do not want to put embarrassing questions to the minister—

Senator Grosart: Why not?

Senator Robichaud: I would say because I myself have been involved in some of these negotiations and I know to what extent a minister might be prepared to answer such questions. One point which comes up every time we mention the International North Pacific Fisheries Commission is why the U.S.S.R. is not part of this commission. We know that Canada, Japan and the United States are involved or interested in the salmon fisheries of the north Pacific. Why is the U.S.S.R. not part of this convention? Why in recent years—and by recent years I mean since the minister took office—has no approach been made get the U.S.S.R. to participate in the North Pacific Fisheries Commission?

Hon. Mr. Davis: I have discussed it personally with the Russians—for example, when they were here last fall and we were trying to resolve the vessel conflict off Vancouver Island. Essentially, the Russian representative said, there was nothing in it for them. They have an off-shore understanding with the Japanese, and when you get anywhere near the Russian shores they just make sure no one comes close, including the Japanese. This is generally true of the whole of the sea of Okhotsk, which is an immense body of water.

The Japanese are out anyway, because there is no particular interest in the treaty or in joining a commission involving the Japanese. The Canadians do not fish that far afield. If we attempted to we would be shut out by what they refer to as historic rights in the sea of Okhotsk. The U.S. fishermen are not really aggressive long-distance fishermen either. So I do not see much advantage in the Russians entering this.

The Russians do support the principle which we are advocating at the next Law of the Sea Conference, namely, that no one should take salmon on the high seas. Therefore, the only salmon they do take on the high seas, or close to our shores, are salmon which are taken incidentally to another fishery. If they are dragging the

bottom for ground fish in great quantities they may pick up a few salmon, but they certainly do not admit it, and they do not want to be caught with them either. They do not deliberately take salmon near our shores. Again, this reduces our concern about involving them in a general North Pacific agreement.

Perhaps Bill Sprules, who knows a good deal more about the subject than I do, might answer the question. Are the Russians interest in joining? If not, why not?

Dr. W. M. Sprules, Director, International Fisheries Branch, Department of Fisheries and Forestry: Perhaps I could add just one or two points. The specific question at the beginning of Senator Robichaud's dissertation was why did they not join. Of course, in the treaty there was no provision for them to join. It was a treaty between three nations that were fishing in the area at that time. The Soviet Union was not fishing at the time the treaty was negotiated.

Hon. Mr. Davis: The treaty applies only to half of the Pacific; our half.

Dr. Sprules: Yes, the extension provisions apply east of 175 degrees west, which is getting close to the centre of the Pacific Ocean. It was designed to prevent the Japanese fleet after the war building up and moving over closer to our shores for salmon, halibut and herring, particularly. At that time the Soviet Union was not fishing in the area. It was just beginning its interest.

Another thing that might be of interest to you is the fact that, if we wished to bring the Soviet Union into or if they wished to come into this convention, it would be necessary to have really a new convention. It is not an open-ended convention to which other nations may adhere.

Another factor is that the Soviet Union and the Japanese have a very similar arrangement for fishing on the western part of the North Pacific ocean, and right now they are, indeed, sitting around the bargain table again as they do each year under a convention between those two nations to discuss the allocation of salmon catches for the coming season.

So they have the control through that convention and through separate agreements with China and North Korea and so on for most of the fisheries close to their shore. As Minister Davis said, there is not a very great advantage to them in joining the other convention which, unless modified terrifically, would impose the extension principles indeed on them for species of fish off our coast such as halibut and herring, which they would not be very happy about.

Senator Robichaud: Maybe Canada is better off then not to have the U.S.S.R. in this convention, because their policy is so different. The Japanese are against extension, and the Russians have expressed the opinion that no one should take salmon on the high seas. So perhaps we are better off not to have them in this treaty.

Hon. Mr. Davis: So far as salmon is concerned, if we could get a policy endorsed at the next Law of the Sea Conference, say by two-thirds majority or more, that no

nation would take salmon on the high seas or outside its own territorial waters, that would be the best of all possible worlds. We would then have contained the Koreans and any new entrants. The Russians are really not a problem since they do not take salmon on our side of the Pacific. But it is the other countries such as Korea that really are not fishing on the west coast most.

Senator Pearson: Are there any great rivers in Asia or China or Russia where the spawning of salmon takes place?

Dr. Sprules: Oh, yes, indeed. There are Soviet rivers on the inside and outside of the Kamchatka peninsula. There are very large and extensive salmon spawning streams throughout that area. In fact, they produce far more salmon than we do in North America.

Senator Carter: Are those schools of salmon separate from our side?

Dr. Sprules: Yes, they are. They are separate until you get into the central area. The Asian salmon are mainly confined to the eastern Pacific-North Pacific area. Our salmon are confined to this side. The difficulty arises in some of our negotiations in the North Pacific Treaty with respect to Asian salmon because the Japanse feel that they have a right to take that salmon no matter where they occur, and they do come well over on to our side. Salmon tagged on the Asian coast been taken just off the shore of southeast Alaska. These are few and far between, but I would say that in the central Bering Sea area the stock is probably equally mixed between Asian salmon and our salmon.

Senator Carter: Is there any difference between the two kinds of fish? Can you tell one from the other?

Dr. Sprules: They are identical species, sir, and we have to become pretty sophisticated to find the differences. One of the main things we have done is to use biological indicators such as parasites. We find that certain parasites are indigenous to, or belong only in, the North American area. Fish will pick up those parasites in the fresh water environment in North America. A particular parasite as a species, for example, does not occur in Asia. It has never been recorded there. On the other hand, there are other parasites on the Asian side which have been recorded there which do not occur in North America.

Senator Pearson: Is there more mercury pollution of the salmon of the western Pacific than of the eastern Pacific, or is there any pollution of them at all?

Hon. Mr. Davis: There is none at all, or at least there is nothing more than the very low background levels that have been found in salmon historically. Fish that spend most of their lives at sea do not seem to have the problem with pollution. The short-life fish which spend most of their lives at sea do not have that problem.

Senator Robichaud: Would it be correct, then, Mr. Minister, to conclude on that point that the public pressure which has been quite constant, although perhaps in

a limited way, from the Pacific coast, to have the U.S.S.R. become part of this treaty is not altogether justified?

Hon. Mr. Davis: As I said earlier, there does not seem to be any great enthusiasm on the Russian side, and if that is the case, the question then arises—what do we give up in order to get them in? What advantage is there to us in getting them in? It seems obvious to us that there is not any overriding or overwhelming advantage to enticing them in if we have to give up something to do so.

Senator Robichaud: You referred also to our position regarding the Republic of Korea. Has any definite approach been made to that country regarding their participation in different commissions in the Pacific area?

Hon. Mr. Davis: I do not think there has. Our approaches to Korea have been in the field of trying to get the new vessels which have been built, particularly at US expense, to go somewhere else rather than having them chasing our salmon, and there have been several people from industry over in Korea trying to develop new fisheries in other parts of the world which could be exploited by these new vessels which Korea has. In other words, let us keep them away from a very limited resource—a resource which is there only if we look after our rivers both by keeping pollution-prone industries off them or by not building hydro dams. In other words we have a very sensitive and vulnerable fishery which they could kill off in a season or two. So let us have them fish perpetually on other stocks which are much more resilient than our salmon.

Senator Robichaud: Changing the subject now, Mr. Minister, in recent interviews you have stated that you are hopeful it is not too late to keep the ecological situation under control in Canada, and you have also indicated on many occasions that you would take a strong stand against polluters. In this I am sure you have the full backing of this committee and the public in general. Now in your opinion how serious is the threat to the marine environment in the north Pacific region, particularly having regard to recent reports on mercury contamination? You have stated it doesn't affect the salmon fishery, but it may affect some inshore fish and even shell fish.

Hon. Mr. Davis: Well the principal offenders in so far as mercury is concerned are chemical-type industries, more particularly the industry making chlorine and caustic soda for the pulp and paper industry, and historically some pulp and paper mills as well. However, on the west coast the pulp and paper industry did not use the slimicides for cleaning up their screens and their pulp mills to any great extent and phased them out. The last mill, I think, phased out its use of mercury compounds in the early 1960's, mostly because their customers were saying that they did not want wrapping paper or cardboard boxes which had been exposed at any time in its history to mercury compounds. So that problem was solved except for one chlor-alkali plant, a new one, built on

Howe Sound immediately north of Vancouver in the late 1960's. I think it began to operate in 1967. That plant did contribute to a local mercury problem, but it has since modified its procedures and totally recycles its effluent and so far as new mercury getting out is concerned it does not present a problem any more and has not done so for some months. Some of the local aquatic life in the upper end of Howe Sound is still contaminated. Some bottom fish, certainly the crabs and the like local to the plant area are still contaminated. We did close a good part of Howe Sound for a period, but now only that area of the upper end close to the plant is closed. The free-swimming fish such as salmon and trout and herring in that area do not show any exceptional levels of mercury even close into the plant. So, it is a local problem.

Senator Robichaud: But is it not a fact, in all fairness to the pulp mill operators on the west coast, that they have been most co-operative, particularly in recent years, to take measures to abate pollution?

Hon. Mr. Davis: Well, I might put it a little differently. When the pulp and paper industry found that there were timber resources in the interior of British Columbia, some of which could have been more readily exploited than some of the remaining timber on the coast, they began to investigate locations on major rivers like the Fraser and the tributaries of the Fraser and the Thompson system, and one of the prices of their locating there was to conform to the requirements of the federal Fisheries Department, and the clean-up facilities which they have installed in large measure have been designed to meet Fisheries requirements. Several of the cleanest mills in the world are located on those fresh water rivers and rivers in central British Columbia. They were the first, but they were new mills built to a high standard. Now the same standards are beginning to be adopted progressively across Canada, and a number of the engineers particularly the consulting engineers involved in developing the designs are now retained by the Swedish Government and the Russian Government for similar purposes in those countries. So what was a high standard requirement placed on the pulp and paper industry has turned out to be to the advantage of the engineers and the engineering industry on the west coast and several firms there are making a very good business out of designing plants and acting as consultants for companies throughout the world in this particular area of pollution.

Senator Robichaud: One last question, Mr. Chairman, because I know there are other senators who wish to ask questions. This one deals with our trade relations with Japan which we know to some extent is competitive with the fishing industry in Canada. How seriously is the import of fishery products from Japan affecting our sales, taking into consideration that over 70 per cent of our Canadian production is being processed for export? How serious is the effect of the Japanese fishery products imported into Canada?

Hon. Mr. Davis: I think it is serious for some minor fisheries particularly on the east coast, but I do not think it is serious so far as west coast production is concerned.

Senator Robichaud: Salmon, for example?

Hon Mr. Davis: Yes. There is a limited supply of salmon in the world and there is a strong demand, and indeed the Japanese are now big importers of salmon themselves, so they are really not competing with us in the way they did 20 or 30 years ago in the world markets. They are buying salmon, and I think this in a very general way applies to halibut as well because there we can sell all we can catch.

Senator Robichaud: Tuna might be the more relevant one.

Hon. Mr. Davis: Yes. We are not in tuna in a big way. We have a few vessels on the west coast going after tuna, but we are very small as compared to the Japanese.

The Chairman: Is there any rationalization of the Canadian fishing industry on the west coast at the present time? Has it been streamlined? Have there been amalgamations going on? What is being done to meet this so-called increased competition?

Hon. Mr. Davis: Yes, there is rationalization on two levels really. Twenty or thirty years ago there used to be several dozen firms in the business, but now the salmon industry is reduced to three. That is on the corporate side. There have been mergers and so on and a number of smaller companies have gone right out of business altogether. As far as vessels are concerned, the Canadian Government itself has instituted a program whereby there is a limit on the number of vessels fishing for salmon. No new vessels can be added, and no new tonnage can be added without retiring a similar tonnage. Also we have instituted a procedure whereby increased entry fees are paid every year, and those fees go into a fund which, in turn, is used to retire vessels. So we are in the process of reducing the total fleet in numbers and in tonnage.

If one is talking in terms of capital invested or vessels and gear, we have at least double the requirement. We could perhaps pick a third of the tonnage, if we were selective about it, and in the average year we could, with that one-third of the tonnage, catch all the salmon that should be caught, and release the remainder for spawning. In other words, the industry is over-capitalized by a factor of at least two or maybe three, and the main purpose of the exercise is to reduce the capitalization and make the industry more attractive from an economic point of view and provide a decent livelihood for the remaining fishermen and those who invest in the smaller but more effective fleet.

I think, to put it another way, in the salmon fishery on the west coast, many of those vessels, which are expensive, can only fish for a few days a week for a relatively few weeks of the year; whereas if you had half as many vessels they could fish twice as long or could fish 24 hours instead of 12—that sort of thing. So it is obvious that we should reduce the size of the fleet.

Senator Robichaud: Could you also tell us what is the position of the Government now regarding the herring

fishery on the west coast, which was rationalized almost by necessity?

Hon. Mr. Davis: As far as big volume herring production is concerned, it is closed. Herring are not caught and ground up for fish meal, and have not been for several years. Basically, the herring stocks were over-fished and the resource has been allowed to recover and is now back to around the levels of the early 1960's. We are permitting a modest food herring fishery—in other words, the large herring—which can be sold at a high price, but basically we are not in the business of just grinding up herring in great tonnages any more.

Senator Robichaud: On this very subject, is the Government or the department taking measures now to prevent such a case on the east coast, where really herring is being ground for fish meal on a large scale, almost on too large a scale?

Hon. Mr. Davis: For several years the federal Government has not made money available for any more herring-grinding-up or reduction plant. We have also limited the size of the herring fleet. It is frozen; its tonnage cannot be increased any more. Vessel substitution is possible, but the total tonnage cannot be increased further. We really do not know enough about the herring stocks on either coast, and certainly not on the east coast. Personally, I would be reticent to see a re-opening of the reduction industry on the west coast for another year or two, if ever; and on the east coast it is a much bigger volume of herring and there is always the threat, and indeed the likelihood, that other nations offshore are now going to come swarming in because we have made a success of this herring fishery-in the Gulf of St. Lawrence, for example-and they are likely to be depleting related stocks, if not many of the same stocks, close to our shore, so we have that added threat to contend with.

Senator Carter: The Continental Shelf on the American side and on our side, how far does it extend?

 $\mbox{\sc Hon.\sc Mr.\sc Davis:}$ We are talking about the west coast of North America, I assume.

Senator Carter: Yes.

Hon. Mr. Davis: The shelf on the west coast of North America is a much narrower shelf than it is off the east coast of Canada. There are places down the west coast of the Queen Charlotte Islands where the shelf drops off very steeply into the depths of the ocean a few miles offshore. If one draws a line from Queen Charlotte Islands to Vancouver Island, that is roughly the edge of the shelf. In other words, it includes all of Queen Charlotte Sound, Hecate Strait and Dixon Entrance, but basically the shelf is close to the Queen Charlottes, close to the northern tip of Vancouver Island, and then begins to fan seaward, or generally westward, and is perhaps 30 or 40 miles off opposite Victoria. It is a similar width going down Washington and Oregon.

Senator Carter: It would not be more than 50 miles off?

Hon. Mr. Davis: It varies, but I doubt that it is much more than 50 miles at any point. Perhaps off the mouth of the Columbia River it might be more than that.

Senator Carter: How does that compare with the shelf on the Asian side?

Hon. Mr. Davis: You can see the lighter areas on the map, the very light blue. Those are the shallower waters. It gives you some indication that much of the Bering Sea and virtually all of the Sea of Okhotsk is shallower.

Senator Carter: It is pretty narrow over on that side as well.

Hon. Mr. Davis: Those are very large areas. Those are larger areas than Hudson Bay. That is not a small part of the globe; it is a very large part.

Senator Carter: I was thinking in terms of coming down.

Hon. Mr. Davis: You mean, off China?

Senator Carter: Yes.

Hon. Mr. Davis: It is a very narrow shelf off Japan.

Senator Carter: I mean, from Alaska across the Bering Strait you have a pretty extensive shelf.

Hon. Mr. Davis: They say the original Indians walked across.

Senator Connolly (Ottawa West): They pushed their canoes.

Senator Carter: Do the Russians harvest species we are not interested in commercially?

Hon. Mr. Davis: Very much so, yes. Now we are talking about the west coast. On the west coast we have a modest bottom fishery, a modest fishery involving fish that typically swim near the bottom of the ocean. The Russians concentrate almost entirely on those fish.

Senator Robichaud: What would they be mostly—black cod, flounders?

Hon. Mr. Davis: Hake and pollock, and a variety of ocean perch as well—flat fish, flounders, and so on—that type of fish.

Senator Carter: So that the Canadian fishermen concentrate on the high value stock—halibut, salmon, herring?

Hon. Mr. Davis: Very much so on the west coast; almost exclusively there.

Senator Carter: They are not interested in hake and what we call rock cod?

Hon. Mr. Davis: There are literally thousands of small vessels on the west Coast that fish for salmon and halibut. Then there are dozens of trawler-type vessels, which supply B.C. Packers and others. They are concerned with the bottom fish, but there are only a few dozen of them,

and even then they are small compared to the Russian vessels.

Senator McLean: When you say hake, is that the same as the hake we have on the east coast?

Dr. Sprules: It is a different species, but just about the same.

Senator Carter: This abstention principle intrigues me. The South Koreans do not like it; Japan does not like it. Would that be one of the reasons why Russia keeps away from this North Pacific commission too?

Hon. Mr. Davis: I would think so; it is a special consideration.

Dr. Sprules: If I may speak, Mr. Chairman, I think the situation is simply, as I said earlier, that the Soviet Union is a big producer of salmon herself and she is quite comptetent and capable of exporting that resource when it comes back to her own rivers. In fact, they are quite unique. Some of their operations simply let the salmon run into the rivers and they direct the salmon almost into the packing plant, up fish ladders, without making any effort to catch them. So they are obviously concerned about other nations coming and taking this stock on the high seas before it has a chance to reach their inshore fisheries; and we are in the same boat.

Senator Carter: Was that abstention principle put in specifically to protect the salmon fishery? It applies to all stocks, does it not?

Dr. Sprules: That applies to just three stocks. There are very stringent things that must be met by the country requesting an abstention from their stocks of fish. The abstention principle in that treaty applies only to salmon, or a species of salmon, halibut and herring in specific areas.

In order to qualify for abstention you have to prove scientifically that your industry is taking the whole maximum sustainable yield of that stock, that there is nothing left over, nothing that you are not using, and you must have a scientific program in operation to determine the size of the harvest that can be taken, and you must have the stocks under quite rigid regulation. There are qualifications for abstention and the only species that could qualify on our coast is halibut, which a has been very intense long-established fishery by U.S. and Canadian fishermen, salmon and herring.

Senator Carter: Has the principle been invoked to protect either one of these species yet?

Dr. Sprules: Yes. The principle is invoked by the North Pacific Fisheries Convention for those three species.

Senator Carter: But has anybody utilized it, because I gather that the way it works is that when one country is exploiting the stock itself the other two agree to abstain?

Dr. Sprules: That is correct.

Senator Carter: Has that situation arisen?

Hon. Mr. Davis: Japan has not been exploiting salmon in the eastern half of the Pacific because from the very beginning Canada and the United States invoked an abstention against it. Is that right?

Dr. Sprules: That's right, and the same thing for halibut.

Senator Carter: Would you like to see that principle in the ICNAF Convention?

Hon. Mr. Davis: For salmon yes, it would be great; but we may accomplish much the same thing by getting a majority of the nations, two-thirds or more of the nations, to vote for no high seas salmon fishing, and bring that in exclusively for salmon. We are optimistic about that.

Senator Connolly (Ottawa West): We are talking about specific fish and specific fisheries. Would the minister care to say whether there is any real depletion of any of the fishery resources of this country that cannot be corrected? Is there a serious depletion of resources? That is my first question. My second question is could it?

Hon. Mr. Davis: If overfishing does not proceed too far—and we can go quite a long way and stock could be brought back—then we are all right. The pilchard industry on the west coast disappeared almost entirely due to overfishing some time back in the late thirties or forties. Pilchard runs which used to come halfway up the B.C. coast were killed off by overfishing down around California. That was a big industry at one time, akin to herring. That species of big fish, if not extinct, is virtually extinct on the west coast.

Senator Connolly (Ottawa West): Did Canadians participate in that overfishing?

Hon. Mr. Davis: Yes, in a big way.

Senator Robichaud: Perhaps it would be a good thing to put on the record what is being done to protect the haddock fishery on the west coast, and give an example of what the Canadian Government, with participating countries in ICNAF is doing.

Hon. Mr. Davis: Senator Robichaud is referring to the 14-nation agreement that we have in the northwest Atlantic which has among other things focused on a large area of Georges and Browns Bank which were seriously overfished particularly by the Russians a few years ago. Certainly the haddock stocks were nearly extinct. Certainly there are still gaps in the year classes. There is a 14-nation agreement. We now have a sustained yield concept in force. Nations collectively do not take more than a certain volume of fish there. The total is shared between nations on an historical pattern, and the resources are slowly recovering as a result of this international agreement. But it followed from a near catastrophe. We are now learning and, in fact, agreements of this type are being developed for other species further north in the Atlantic and hopefully for the haddock throughout the whole of the northwest Atlantic.

Senator Carter: In your brief you mentioned a number of conventions in the Pacific countries and the United States. Do you think that these conventions are adequate to meet the problems of the fishery on the west coast? Would you like to see them extended somewhat or changed?

Hon. Mr. Davis: I suppose they are never adequate in this sense, that you have a convention which applies to the first countries to exploit a resource, but not to others which enter of their own volition and without being bound by any rules of the convention. We therefore have a situation which is less than satisfactory. As a number of countries in Asia begin to look to the sea and to fish as a source of protein we have a number of possible entrants into the Pacific fishery, long distance fishery, that would not be bound by the terms of these various conventions, which for example, were limited to Canada, U.S. and Japan in the case of salmon.

Senator Carter: I am wondering whether the development of these fleets of large offshore ships, trawlers and so forth, would make it more difficult for these conventions to work. Does it make it much more difficult when they have these large ships?

Hon. Mr. Davis: Yes, because the larger vessels are able to range over greater distances and reach our shores. I would have to say that the simple answer is that it does.

Senator Carter: South Korea is now building large trawlers for salmon fishing. Has Canada made any representations about that?

Hon. Mr. Davis: Yes, we have. The main leverage on the South Koreans is exerted by the United States which has made numerous loans, gives assistance to South Korea, and made available the money which was invested in some of those large vessels which are idle, which are looking for fish and which come in our direction to pick up salmon.

Senator Carter: I think you mentioned someting in your brief about South Korea having invested in large salmon hatcheries and they feel that they are entitled to take...

Hon. Mr. Davis: I do not know how successful the hatcheries have been, but they have a modest effort there and who knows how many fish come back. This is one way of laying claim to large fish at a distance.

Senator Carter: Have they developed to a point where they can justify any particular claim on the salmon fishery...

Hon. Mr. Davis: If we add to our hatchery capacity on the east coast of Canada, then no matter how successful those hatcheries are we see those fish go to sea. We know there are large concentrations of that kind of fish 1,000 or 2,000 miles away and we have a good excuse to go out and pick them out regardless of where they come from.

A hatchery progrm is a kind of neat way of getting in on the salmon fishery of the world. That is another reason why our basic policy is to limit fishing for salmon to areas near the rivers where they are spawned, where they are hatched out and raised.

We have an incentive to invest and improve the salmon runs if we can crop the yields of this effort; but if someone else crops the yield of the effort we have little or no incentive to look after the salmon.

Senator Carter: South Korea would be breaking the general agreement not to fish for salmon on the high seas?

Hon. Mr. Davis: There is no agreement, but we are hoping to develop one though the United Nations.

Senator Connolly (Ottawa West): I think I would defer to some of the fishermen on the east or west coast. I have some general questions that I would like to ask.

The Chairman: It is an understandable deferment, Senator Connolly; the next fisherman is Senator Grosart.

Senator Grosart: I am not much of a fisherman, Mr. Chairman, so my questions will largely involve, perhaps, broader matters than the actual fish themselves.

I am particularly interested in our assertions of jurisdiction. I suggest to the Minister, if I may, that we seem to have a mix of assertion of sovereignty up to 12 miles and an assertion of jurisdiction beyond that. Recently an international discussion with respect to this matter Dr. Jacques Cousteau said that there is no hope in the world of controlling the mortality of life in the sea by international convention. He said it will have to be done by the extension of territorial jurisdiction.

Would you care to comment on that? He was quite vehement in his statement.

Hon. Mr. Davis: Dr. Jacques Cousteau has been, I would not say an activist, but a prime mover in arousing the concern of the human race with regard to the preservation of the living resources of the sea. He is quoted periodically as forecasting doom, sometimes imminent catastrophe, in the oceans of the world. He is very concerned and might well be, because collectively the nations of the world have a fishing capability greater than the resources. Without close regulation we could destroy many species quite quickly now.

You say that he is pessimistic with regard to international agencies such as the United Nations bringing some order out of this prospective chaos.

Senator Grosart: Excuse me; he did not specifically mention international agencies. He was speaking really of the big nations.

Hon. Mr. Davis: To some extent I share that view. However, I think that much of the ocean will eventually come under the ambit of such an organization as the United Nations or a multinational commission. For instance, there now exists a 14-member commission for the North Atlantic. However, closer to the shores of

individual nations I believe that those nations must assert themselves at least to the extent of ensuring that sound conservation practices are followed to the limit of their continental stelves. This should perhaps include the slope of the shelves, because those waters overlying the shelves harbour virtually all of the fish life in the ocean.

The shelves and the upwelling areas near their edges are the productive edges. Canada's policy, basically, should be one of delineating its exclusive fishing zones, which it has done recently.

Senator Grosart: Unilaterally.

Hon. Mr. Davis: Unilaterally, its exclusive fishing zones, those in which only Canadians can fish. Foreigners can fish there if we give them a licence, but we can decline doing so at any time. Beyond this, to at least the edge of the continental shelf and its slope we should unilaterally, if necessary, assert the right to police in the interests of sound conservation. However, we should always use any vehicle, such as a commission if it is multilateral and likely to achieve the same results and achieve them more quickly.

With respect to the areas outside our own fishing zones, the Grand Banks, for example, from 12 miles out to 400 miles in one place, we would not be pushing other nations out completely. We would be allowing them to fish, but within a management concept, certainly within a sustained yield concept, the shares to be determined on some basis and certainly Canadians being on the inside track, as the closest nation. Basically, there would be conservation, sustained yield operations and shares without exclusion of foreigners, but with Canadians on the inside track.

Senator Grosart: The question has been raised as to the validity of the concept of "closest nation and inside track". This is particularly applicable in the Pacific. It has been said, for example, that the deep seas are the last remaining free source of food for the people of the world. The developing nations have said that this type of convention, sharing up the food resources by the larger nations, is internationally immoral. They say that in effect by these international treaties all newcomers, in other words the people who need the food most, are shut out.

What would be your comment on that, Mr. Minister?

Hon. Mr. Davis: First we have many industrially advanced nations with long distance fisheries; then there are small nations, or those with a very limited coastline or shelf area surrounding them. I think for example of Japan or the United Kingdom.

Senator Grosart: They are all "have" nations though.

Hon. Mr. Davis: They are "have" nations in the sense of industrial activity on shore. However, many of them are "have-not" nations with respect to a continental shelf of their own. The nation with the biggest continental shelf in the world is Canada. We are a "have" nation from the point of view of shelf areas. So, obviously, is the USSR a

"have" nation in those terms. The United Sates has a sizable shelf, but nothing like ours. So it does not necessarily follow that the industrially advanced nations have the biggest shelf areas for their exploitation or their sole exploitation if their limits went to the limits of their shelf.

Senator Grosart: No, I was referring to the high seas as the last free source. This is on the assumption that the territorial seas and the areas where jurisdiction is claimed are not free.

Speaking now of the free areas, it is not a fact that these conventions by the "have" nations—"have" in the fisheries sense; "have" in the historic sense—actually deny in the long term the rights of other nations to fish in these areas?

Hon. Mr. Davis: I do not think that is a true generalization.

Senator Grosart: Well, I am asking if it is.

Hon. Mr. Davis: The countries of Africa which historically have not exploited the fish stock in their areas, such as those which front on the ocean and have a big shelf on their front doorstep, so to speak, and have witnessed European fishermen fishing there historically, are now enamoured of this idea whereby they have sole authority to regulate. Indeed, their fishermen would be on the inside track on the regulated fishery in that shelf area.

There are cases of underdeveloped nations which have a good deal to gain by achieving formal and greater control over adjoining shelf areas. These special privileges of the coastal state, in other words, would appeal to them.

Senator Grosart: Again I am endeavouring to take it away from the coastal areas and the continental shelves, because it has been suggested that there is nothing sacred about possession, in quotes, of a continental shelf. There has never been international law which has given any nation the right to assert any kind of sovereignty over a continental shelf merely because it is a continental shelf.

Hon. Mr. Davis: There are minerals.

Senator Grosart: Not in international law.

Hon. Mr. Davis: Oh, yes.

Senator Grosart: No.

Hon. Mr. Davis: I am generalizing; our shelf is our shelf for minerals, and ours alone.

Senator Grosart: Yes, but again I am referring to the high seas.

Hon. Mr. Davis: Where do your high seas begin?

Senator Grosart: I do not see how you can say it is ours and ours alone for minerals; this is a unilateral assertion

Hon. Mr. Davis: No; the 1958 law of the seas convention was approved by a majority of nations.

Senator Grosart: A majority of nations, but this is not international law per se.

Hon. Mr. Davis: Basically, yes.

Senator Grosart: It is?

Hon. Mr. Davis: That is for minerals, for oil, gas and so on.

Senator Grosart: Yes when we lost our claim to the 12-mile limit you say that is international law. When we lost our claim in two laws of the sea conferences you go back and say we can claim it unilaterally. How can you say it is international law when we say, "To hell with international law." We pay no attention to it but make our claim to the 12 miles and the jurisdiction beyond it unilaterally. On the one hand you say it is international law and on the other hand you say it is not. How do we reconcile those?

Hon. Mr. Davis: Let me take Canada's north.

Senator Grosart: I would like to stay with the Pacific.

Hon. Mr. Davis: It is simpler. The land is ours, that which sticks up above the water. The bottom is ours if we are looking for minerals, unless it is beyond the shelf. Where the edge of the shelf is is a matter of debate. It may be 200 metres, or maybe the limits of exploitability. Where you can drill is yours, so the bottom is ours. The bottom under the ocean is ours and the land above is ours. When it comes to fishing, we have certain lines. When it comes to traffic of vessels over the surface of the water, territorial limits, that is another one. So you have three: the mineral line, the fishing line and the territorial line. You have three concepts there and three different maps.

Senator Grosart: I agree with this.

Hon. Mr. Davis: Territorial waters of Canada, as you know, at the Gulf of St. Lawrence are 12 miles out from land; that is fishing limits. We have now drawn a closing line right across the mouth of the Gulf of St. Lawrence, so everything within the gulf is ours from the fisheries point of view. All the bottom underneath the gulf and going out, in one place 400 miles, is ours from a mineral point of view. There are three limits.

Senator Grosart: Would you not agree our assertion of the 12-mile limits and the fishing jurisdiction is not in keeping with international law as it stands? I know all the arguments about "customary" international law.

Hon. Mr. Davis: There is a majority of international lawyers who will frown on our new Canadian concept of fisheries closing lines. But while the lawyers scowl the conservationists applaud, and what the conservationists say today the lawyers will say tomorrow.

Hon. Mr. Robichaud: The majority of nations too.

Senator Grosari: But they are not saying it today. I suggest we have made ourselves a banana republic in the worst sense when as soon as we fail to get an agreement with a principle in two international laws of the sea conferences we unilaterally assert the claim and enforce it, in complete defiance of international law as it stood at the end of the second law of the sea conference. How do we justify this? If it was done in Nicaragua or Venezuela we would say, "Isn't this terrible. These people don't understand nations have to live together in comity, and to live in comity you must have law; to have law you must have a rule of law." How do we justify this?

Senator Robichaud: How could we justify at the same time the complete destruction of our fishery resources?

Senator Grosart: You can ask the minister.

Senator Robichaud: This all goes together.

Senator Grosart: I can give you a very quick answer to that if you are asking me. It is that this applies to every right there is. There is never a justification for saying, "I cannot hold on to my property unless I break the law." I know of no principle in law that says a good reason for breaking the law is "If I don't I lose my property." The law is there to protect everybody's property—in this case the deep seas.

Hon. Mr. Davis: We are being overtaken by events. Leave aside the question of conservation of fish attacked by giant fleets that did not exist ten or twenty years ago, fish that are now being scooped up by these fleets in vast quantities. We need a 12-mile territorial sea rather than a 3-mile one, because if you put a big tanker into full reverse three miles out it will be ashore. Because of the size of vessels today you need a few more miles to make any meaning of territorial waters. The 3-mile limit was a limit of the old muzzle loaded cannon of the 16th century. That is how the three miles arose. We have moved into this century and said we think the territorial waters should be measured not in terms of ancient cannon, but in terms of modern oil tankers and so on that could be in trouble. The 12-mile limit makes sense. While the 12-mile limit did not achieve a majority in the 1958 Law of the Sea Conference, since then roughly two-thirds of the nations of the world have adopted the 12-mile limit.

Senator Grosart: This is the law as it stands.

Hon. Mr. Davis: We have moved a little ahead of the people.

Senator Grosart: I know all the arguments, Mr. Minister. I can tell you that I wrote my thesis on the international law of territorial waters many years ago and I have tried to keep up with international law. I agree that the 12-mile limit makes sense. Maybe 25 or 30 miles makes sense. I come back to this as a matter of consience as a Canadian, to ask you how we can justify breaking international law and saying, "Well, times have changed. It is going to be customary." This argument that customary international law today is the real international law

tomorrow is, of course, nonsense. That is what the hippies say.

Hon. Mr. Davis: We have often been accused of saying that what is fishery limits today is going to be territorial waters tomorrow. This is one of the problems in the last couple of years in establishing fishing limits. But we have staked out, I think, for all time our exclusive fishing limits, and we are prepared within our so-called exclusive fishing limits to envisage other countries coming and fishing for certain species for a certain specific time, in certain specific quantities, but in a manner which is totally under our control and authority. In fact, we have allowed the Russians into one small area on the west coast in return for their staying off a similar area on the high seas near our coast. We have not said that no foreigner will ever come inside our own exclusive fishing zones. We have merely said to the world that we are concerned with the conservation of the living resources within those areas, and we intend to manage them as best we can.

Senator Grosart: How do our closed seas compare in size with any closed seas there may be on the other side of the Pacific, such as Okhotsk, the Sea of Japan, the Yellow Sea, or the Gulf of Pe-chi-li?

Hon. Mr. Davis: I imagine the Sea of Okhotsk is considerably larger than the combination of the Gulf of St. Lawrence and Queen Charlotte Sound.

Senator Grosart: Is it a closed sea?

Hon. Mr. Davis: Oh yes, they have a long line across it.

Senator Grosart: And the Sea of Japan?

Hon. Mr. Davis: I do not know.

Senator Grosart: The Yellow Sea and the Gulf of

Hon. Mr. Davis: I imagine the Japanese have adhered strictly to the 3-mile limit because they are a long-distance aggressive fishing nation and do not find it convenient to close small seas beside themselves if they can be accused of fishing indiscriminately in other places.

Senator Pearson: They have a very narrow shelf.

Hon. Mr. Davis: Yes.

The Chairman: I am interested in your original question, Senator Grosart, which was whether the big powers are in effect dividing up the high seas at the expense of the developing nations. I think in general terms that was the question.

Senator Grosart: That was roughly it. Perhaps I could put it this way. Are you shutting them out for ever, merely because at the present time they have not the capability of building long distance fishing fleets?

Mr. Davis: We are hoping to close off some of these areas while there are some fish left, before they get in with their big fleets.

Senator Grosart: Closing it off for our benefit?

Hon. Mr. Davis: That is right.

Senator Grosart: The benefit of the present claimants to ownership.

Hon. Mr. Davis: Generally speaking there are too many people in fisheries in Canada already to be supported in an economic way by the areas we have closed off. We are already over-exploiting the close-in areas.

Senator Grosart: But there are not too many Malaysians in there, or too many Indonesians. This is my point. Maybe they have not got enough in it and we have too many.

Hon. Mr. Davis: Perhaps the Maltese motion which is before the United Nations would appeal to you, whereby the United Nations would take over the high seas and operate the resources of the high seas, and then divide up the profit on the result of the fishing operations, exploration for oil and so on, among all the nations of the world. This is not only a sound point of view, it is highly respectable in many quarters. We can find a counter to that by offering to share parts of a shelf, or the rather extensive shelf, with other nations, as far as fishing is concerned. The first consideration must be sound conservation practice, because unless that is followed the fishery is here today and gone in a few years time and it may take many years to revive the resources—the resources in effect have disappeared, so there has to be some authority to insist on sound management.

Senator Grosart: My final question is this, and perhaps you can make me happy with your answer. Would Canada look sympathetically on the serious discussion of such a principle as the international sharing of deep sea and perhaps continental shelf food resources?

Hon. Mr. Davis: I think that if you defined the high seas as the seas beyond the continental shelf...

Senator Grosari: I believe that is the modern definition. Let us say, the deep seas.

Hon. Mr. Davis: ... I think Canada agreed to that. But then, the fish are on the shelf.

Senator Grosart: Thank you very much.

Senator Connolly (Ottawa West): Is there any possibility of assessing the value of the fishery in the high seas as against the value of the fishery, whatever it may be, on the shelves of the continents?

Hon. Mr. Davis: I am sure this can be done. I have already said that a great volume of the fish of the world are to be found around river estuaries and generally speaking out on the edge of continental shelves where there is enough welling of ocean waters bringing nutrients and food. If you go beyond that, there are very few species of fish that are world roaming, like tuna or salmon. They are high in value, they are spectacular as a sports fish. The whale is certainly spectacular, but not

numerous. Those fish in value are small. And in protein value they are insignificant as compared to the shelf fish.

Senator McLean: I know, on your paper on the north Pacific ocean, that Senator Robichaud has opened up some questions on the east coast. He asked you what your program was on conservation of the herring and the haddock. Your answer to the herring was that it was the tonnage, that it was frozen. What do you mean by frozen? The present tonnage?

Hon. Mr. Davis: The present tonnage. If you want to put a new vessel into the herring fishery on the east coast you have to withdraw the same or a lesser tonnage.

Senator McLean: I take from that, that you would look favourably on maintaining the present tonnage affoat now?

Hon. Mr. Davis: That is not only the policy, those are the regulations in effect now.

Senator McLean: There is enough tonnage afloat there now to deplete the herring fishery in two years. I think there is too much tonnage there now. If they are left loose on the herring fishery, you will have no herring fishery, the same as on the west coast. There has to be some conservation, some measurement of how much herring are going to be allowed to be taken out of the east coast for the purpose of reduction.

Hon. Mr. Davis: Senator, you know that I have been in the middle of this; and I could be in the middle of this as a layman because on the one hand I am told by a number of scientists that we could become bankrupt, and I am told by very experienced people in the industry such as yourself that we should have stopped building up more vessel capacity...

Senator McLean: Five years ago.

Hon. Mr. Davis: Not five years ago. The herring fishery had not started then.

Senator McLean: 1963

Hon. Mr. Davis: Very well. There is an industry now there that was not there ten years ago. You are suggesting that there is too much capacity relative to our resources and we do not know enough about the resources and we should not have allowed that many production plants to be built, and so on. We have for a year and a half now had a limitation scheme on.

Senator McLean: Just to the tonnage of the fleet; but to our minds the fleet is too high, too large now, away too large. We feel, on the east coast, that the only way to protect that herring fishery would be to limit the amount of herring taken out for reduction. As to what is taken out for food...

As you know, I am also interested in reduction but in a limited way. We do see the danger of what could happen to the herring industry at the same time on the west coast, unless something is done, I would say, very shortly. The same thing could apply on the Gulf. I think Senator Robichaud would agree with me on that?

Senator Robichaud: I do not know if I am asked a question or not. I have my own opinion on this. Unfortunately, I think that we do not know enough about the herring fishery on the east coast to make a definite statement regarding the present situation on conservation. It may be that we are too late, I do not know; but the main point is on research in herring on the east coast, and I would like the minister to comment on that in answer to Senator McLean.

Hon. Mr. Davis: A lot of work has been done. The effort has been stepped up recently. There is little evidence—and I am talking about the larger water areas of the Gulf of St. Lawrence, as opposed to the Bay of Fundy—there is little evidence as yet of a decline in stocks. On the west coast, by contrast, the average age of the herring being caught, I think, in the last year, was less than three years old. The herring have to be several years old to spawn at all, so we were catching herring before...

Senator McLean: Before they were spawning.

Hon. Mr. Davis: More than half the herring were being caught before they had ever spawned. Obviously we are getting into a difficult situation when the statistics look like that. On the east coast, there is no evidence yet of a change in age distribution, catching herring of all ages, that is, from a couple of years up to ten or fifteen years the tonnage should be drifting downwards in the Bay of Fundy, I am sure there is more evidence. That is one of the reasons why, in our limitation, we made it possible to take tonnage out of the Bay of Fundy into the Gulf of St. Lawrence, but not to bring it the other way. So in total the tonnage should be drifting downards in the Bay of Fundy, assuming we have got the right tonnage limitation there now.

Senator McLean: I understand from the biological station at St. Andrews that the age limit has been coming down on what we call the south shore, in the Bay of Fundy and around Nova Scotia.

Hon. Mr. Davis: I think there is evidence that the Bay of Fundy has been over-fished, for some years.

Senator McLean: That is where the great investment is. I think the Americans found, and that your department will find, at this meeting you referred to, coming up in the next week or two in Washington, that they are much more concerned about it than the Canadians are. They are very much concerned, because they have a tremendous investment on the Maine coast.

Hon. Mr. Davis: Which investment should we cut down?

Senator McLean: Pardon?

Hon. Mr. Davis: Whose investment should we cut back?

Senator McLean: Our particular interest now—you are probably pointing your finger at me...

Hon. Mr. Davis: No. but this is a big question.

Senator McLean: My shoulders are broad enough to take it, because I am interested in the industry; and the industry, as I see right now, is in a very dangerous position.

Hon, Mr. Davis: Senator, you know more about this business than I do. You know that we have over-exploited herring, not only on the west coast, not only in the North Sea, but in many parts of the world. You know. though, that we have some very able scientists and people who have done studies on fish population dynamics and so on, who are of the view that the herring fleet we have now-basically I am talking about the Gulf of St. Lawrence and areas outside-some of the overexploited areas of the Bay of Fundy, may not involve too big an investment. They may be able to sustain their operations at an economic level for all time. Unless we have a going fishery we will never know these things. On the other hand, we should call a halt, and, when we are sure we have a sustained operation, perhaps allow some addition to capacity every so often.

A year and a half ago we did call a halt to expansion. The expansion up to that point had just run along like wildfire.

Senator McLean: It was just crazy.

Hon. Mr. Davis: Yes; so I think we are in agreement, really. I called a halt to expansion of the industry. Now you are saying cut it back. This is the big question that I faced on the west coast with the salmon people. They sweated blood and tears; no one wants to get out, because he figures he will lose his vessel and so on.

The Chairman: We will move back to the west coast, if you do not mind, Senator McLean.

Senator Robichaud: Mr. Minister, with respect to the U.S.S.R. and Japan, which are two of the main fishing countries in the world, and also with respect to Canada, can you tell us briefly what the position of those main fishing industries of the world will be with respect to the forthcoming conference on the law of the sea? Are they in favour of it? Do they welcome this initiative and do they support it?

Hon. Mr. Davis: There is going to be a law of the sea conference in 1973. The majority of the nations of the world welcome it. Virtually all of the major long-distance fishing nations are not only concerned about it, but also feel that the policies that may evolve from that conference may be suitable to them.

Senator Robichaud: Do you include Chile and Peru in that?

Hon. Mr. Davis: They are included, yes. Their school of thought is that fisheries limits should uniformly be 200 miles out. There will be more than two nations supporting the resolution along those lines. I would think that the Latin countries generally would endorse a resolution to that effect. At any rate, that is their line of thinking. That is their approach to this problem. As a matter of fact, African countries may think that way as well.

The United States has another position which it hopes it can sell to the world. That position is embodied in a proposal which was made public last fall by President Nixon. It is much more restrictive, being essentially restricted to 12 miles, which, for the most part, would be measured from the coast following the sinuosities of the coast.

They would limit any country's unilateral act to conserve beyond 12 miles the resources of the shelf adjoining its shores. So you could say that the United States in a way is at the other end of the scale in terms of the extension of fishing limits. They say 12 miles and that is it. That is the United States' position, basically.

The position of the South American countries would be that they should have, in a sense, straight lines 200 miles out.

Our position is more that of the 12 miles. We have established our limits, but, essentially, there are 12 miles off every headland with straight lines between those headlands. Beyond that limit of the shelf, each country would have a special position to ensure, if it could not otherwise do it through multilateral relations, that there would be sound conservation practices in its shelf area.

Senator Robichaud: You mentioned the United States' position. Is their position not dictated by their interests in the southwest Pacific? Those interests would have some bearing on the firmness with which the United States takes its position: 12 miles and no more. They are against the closing of certain bodies of water, such as we have done with the gulf and the Bay of Fundy and Hecate Strait.

Senator Grosart: Is there any nation in the world whose position on the law of the sea is not dictated by its own interests?

Hon. Mr. Davis: I do not know. There is a large element of self-interest in most of these positions. I should not perhaps be paraphrasing the position of the United States in a few sentences, but their attitude to fishing limits is determined not by fisheries considerations at all, but by other considerations such as the freedom of the high seas for navigation, and navigation includes not only the freedom of vessels to come and go, but also the freedom of airplanes to fly over and submarines to pass under the surface of the water. The United States, being a nation with a global involvement, a big shipping involvement, a big defence involvement and a big aircraft involvement, wants to minimize those strips of the sea which are the exclusive preserves of individual nations from a fisheries point of view. The United States will repeatedly say, "You want more territory for fishing; and all that is going to mean is that you are going to be asking that that be territorial water a few years from now. And other countries will copy your initiatives, especially the less developed countries, and if they border on major straits such as the straits off Singapore and other narrows around the world, if they border on them and do what you are doing, those straits will be closed to transportation, and this we do not want to live with."

Well, the transportation side is a special area. Fishing is one matter; conservation is another, and is important, but let us deal with fisheries as distinct from shipping and as distinct from mining under the sea. That is the way we feel, but the United States tends to wrap these up together and see them all as one limit, or one limit leading to another limit.

Senator Robichaud: Can the minister state what priorities the Government intends to give, or he tends to give, to marine conservation proposals at the Geneva Conference?

Hon. Mr. Davis: Top priority. Our main thrust will be based on conservation and pollution abatement.

Senator Carter: Have you had discussions at these conventions about controlling the size of fishing fleets or the sizes of vessels in the fleets?

Hon. Mr. Davis: Not to any great extent. Quotas have been established in some individual fisheries. I think offhand of the seal fishery, where numbers of vessels begin to get into the calculations. Once you establish a quota or an upper limit, then countries cease simply to throw more vessels at a particular fishery. They know that they are going to get a certain volume and value of fish and so they begin to economize in terms of the number of vessels they send to pick up those fish. The economics of fishing then begin to improve.

One of the great problems of the fisheries of the world has been the public resource concept or common resource concept: first come first serve. That has not been true of agriculture for hundreds of years now. In agriculture you fence your land and it is yours. It is no longer first come first serve. Once you fence your land you begin to look after it.

The same thing is beginning to happen now in the world's fisheries. Once a quota is established, hopefully on a scientific basis, and each country is allocated a share of the quota, then its investment in vessels and so on is optimized and the profitability of the whole operation is improved.

Senator Carter: And you establish the quota in metric tons, I suppose.

Senator Grosart: That concept of fencing your own land would be accepted immediately by the state of Israel at the moment, I should think.

 $\mbox{\sc Hon.}$ $\mbox{\sc Mr.}$ $\mbox{\sc Davis:}$ I do not know. I have not talked to them.

Senator Grosart: It seems to me extraordinary that the Minister should say that we are now in an era where the concept is to go around "fencing" seas. This has not happened in any land under the rule of law for hundreds of years.

Hon. Mr. Davis: Yes, but the trouble is that the law that we knew 10 or 20 years ago or further back when you wrote your thesis really didn't envisage 40, 50, 60-vessel fleets, each vessel longer than a football field, each with several hundred people on board and each a proc-

essing establishment as well as a dragging and hauling operation with their hospital ships and so on. The Russians have literally dozens of those fleets around the world and they are only one nation. The same thing applies to the West Germans and the Poles and others who are beginning to operate this way. Once you have the ability to remove the protein off the shelves of the world, some new rules have to obtain or you are going to destroy the resource. I am not talking about their total exclusion, but I am talking about a new ballgame with their players on the field where at least we have some goal posts and the whistle is blown once in a while.

Senator Grosart: I agree with you, and your comment about the change in international law is quite true. But I doubt if any Canadian law at the time I wrote that thesis envisioned the conditions under which the law is operating today. That is why we have amendments to acts and new acts; that is why we have a legislature and that is why we have Parliament—to bring the law up to date. But we do not countenance anybody saying "I don't like the law, therefore I am not going to keep it."

Hon. Mr. Davis: Well, I would say in some of these areas there is a vacuum, and we have been making law, if you like, and we think that other countries are going to follow the steps that we have taken and that in fact we will have created or helped to create new and more sensible law and more meaningful law as far as conservation is concerned, and conservation and pollution are tied together in this approach.

Senator Grosart: My only point is that I would like to see it done within the law as it exists rather than outside it.

Hon. Mr. Davis: Senator Martin and others have argued very strongly the same position as you have argued and while they were in positions of power their view obtained.

Senator Robichaud: Would you not agree, Mr. Minister, that the main countries like the Russians and the Japanese are getting more and more conservation conscious?

Hon. Mr. Davis: Yes, and I think the Russians and the Japanese would for the long view much prefer sustained yield operations everywhere as long as they were not excluded from these big shelf areas. They would much prefer to be able to come back, say, every fifth year or every 5th of July for ten days to an area, year after year, and make it worthwhile. They could limit their investment and have a much more economic operation. They have a big investment now in fleets, so they are rather torn today as to whether they want a world routine just yet or whether they should have a free run for a few more years before this overall regimen comes in.

Senator Robichaud: They are not too interested in fishing herring that costs them 30 cents or 35 cents a pound.

Hon. Mr. Davis: Well, the Russians operating on the west coast—and this is an aside in a way, but I think it is

worth mentioning—their vessels are built principally in western Europe, and not in eastern Europe, and the accounting system they use is the private enterprise system of the United States. They work on a profit and loss basis and their captains are rated accordingly, and the fishermen on those vessels are the highest paid industrial workers in the USSR.

The Chairman: How did we find that out?

Hon. Mr. Davis: Oh I think we find it out just by talking about it.

Senator Robichaud: They give us the figures. They do not try to hide those figures.

Hon. Mr. Davis: This is quite common knowledge. There is quite an extensive article in World Fisheries, the second last issue, about ten pages in length on precisely this subject, the number of vessels, how they are operated, where they were bought and the accounting system.

The Chairman: Gentlemen, time is progressing. Senator Pearson has a question.

Senator Pearson: You say that salmon fishing or fishing in general is much greater on the west coast, the Pacific, than it is on our side.

Hon. Mr. Davis: No, the value on the west coast to Canadians is about half of the total of each coast, in other words, one-third of Canada's fisheries in value terms is on the west coast, with two-thirds on the east coast.

Senator Pearson: They have been fishing there for a good many generations, I imagine, so how do they conserve their fishing resources?

Hon. Mr. Davis: The principal fishery on the west coast is the salmon fishery and the main means of conservation is to limit the catch so that the escapement up the river produces enough spawning to keep the resource constant.

Senator Pearson: How do they police it then?

Hon. Mr. Davis: By limitation as to the duration of the fisheries hour by hour and by the types of gear in particular areas. It is very highly policed. If an industry was ever enmeshed in red tape, the west coast salmon fishery is with regulations every which way. As a result we have 6,000 odd vessels operating out there still. Reference was made to the Russians installing a few big weirs at the mouths of their principal salmon rivers, and we could have gone to that extreme, but we have a lot of vessels intercepting salmon a distance out rather than a big volume operation right at the mouth of the river.

Senator Carter: Your colleague the Minister of Defence was here a few days ago, and he told us that he was discussing with you and with your department the common problems of enforcing our fishery rights and territorial rights. Can you give the committee some idea what those problems are?

Hon. Mr. Davis: Well, there is the problem of surveillance. As you know, we have vessels which are operated by the Fisheries Department which police our limits. Occasionally we call on other arms of the federal Government, the coast guard and the Department of National Defence to help us, and normally planes owned and operated by the Department of National Defence are flying backwards and forwards and their photographs and records of what is going on are useful to us. Our problem is reduced now as a result of our completing our exclusive fishing zones. We have now drawn a map of Canada which, for example, puts a straight line across the mouth of the Gulf of St. Lawrence. Formerly we had to police inside and around the Gulf of St. Lawrence but now we have just one line to police there. To that extent at least our patrol problem is cut down. We also have made our territorial limit and our fisheries limit the same, so this has simplified the picture a bit more. They are now 12 miles instead of three. We also have fewer people fishing up off Labrador and a few things like this

have simplified it somewhat also, and a combined interdepartmental operation is useful on occasions. But the basic job is done by vessels operated by the Fisheries Department.

Senator Carter: Have you developed the capability for patrol in your patrol boats? Are they big enough to go out and enforce our rights?

Hon. Mr. Davis: Not altogether. We now have one good-sized vessel of about 120 feet on the west coast which can go out on the high seas in all weather, and on the east coast we have three. The service says they are not enough, but I think in co-operation with the coast guard and National Defence they may be adequate, but only just.

The Chairman: Thank you very much, Mr. Minister. For me this certainly has been a most educational afternoon. And thank you, also, Dr. Sprules.

The committee adjourned.

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THIRD SESSION-TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 13

APR 29 1971

THURSDAY, MARCH 11, 1971

Respecting
The Pacific Area

(Witness:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*The Honourable Allister Grosart, *Deputy Chairman*and

The Honourable Senators:

Bélisle Macnaughton Cameron McElman Carter McLean Choquette McNamara Connolly (Ottawa West) Nichol Croll O'Leary Eudes Pearson Fergusson Quart Gouin Rattenbury Haig Robichaud Lafond Sparrow Sullivan Laird White Lang Yuzyk—(30).

Ex officio Members: Flynn and Martin (Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier Clerk of the Senate

Minutes of Proceedings

Thursday, March 11, 1971. (15)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 10.35 a.m. this day.

Present: The Honourable Senators Aird (Chairman), Belisle, Fergusson, Lafond, Laird, Macnaughton, McLean and McNamara. (8).

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area.

Witness

Dr. John F. Howes, Professor of History, Department of Asian Studies, University of British Columbia.

At $12.28~\mathrm{p.m.}$ the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, March 11, 1971

[Text]

The Standing Senate Committee on Foreign Affairs met this day at 10:30 a.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Today's meeting—like that with Mr. Chester Ronning two weeks ago—has been arranged with a view to better understanding the complex and fascinating societies of East Asia. We have invited Dr. John Howes, from the Department of Asian Studies at the University of British Columbia to speak on Japan. As members know, Japan has been a main focus of most of our hearings in this Pacific inquiry. All of us have become more and more conscious of Japan's crucial importance in both regional and global terms. At the same time, I think we have become increasingly aware of the need to know more about the dynamics and roots of modern Japanese society.

As you have seen from the biographical material on Dr. Howes, he has had considerable personal experience in Japan over the past three decades and has written extensively on the social history of that country. I might also mention that Dr. Howes has been on the faculty of UBC for nine years and he has agreed to comment on the general state of Asian studies and particularly Japanese studies in Canada today.

I have had the privilege of spending about a half an hour with Dr. Howes, and I can tell you that I really believe this meeting is going to be a most interesting and rewarding one. Dr. Howes is not going to speak from a prepared brief. He has indicated that he thinks that his statement will take about a half an hour, and following our usual procedure I have asked Senator Fergusson to be good enough to lead the questioning, followed by Senator Macnaughton and any other senators who wish to participate.

Professor John Howes, Department of Asian Studies, University of British Columbia: Thank you very much. I am very pleased indeed to be here today. I feel it a privilege and honour to have been introduced to the testimony that has been brought before this committee so far. I also feel very proud that a committee of this level is doing this kind of study on the direction which Canadian foreign policy should take. So often legislative committees get questions with regard to something terrible which has just happened about which something must be done. They do not usually have a chance to take an open-ended look at what can be done where there is no immediate crisis. It is very valuable that you are

interested in Asia, and I hope I can contribute something more to your understanding of Japan.

I read Tom Pope's testimony while on the plane yesterday and was extremely impressed with it. I have known him for a number of years and I think he gave a number of very important insights. I particularly was impressed with his analysis of some of the inner workings of doing business with what is called "Japan Incorporated," and this is the first question I would like to address myself to.

As I have looked through what you have been hearing and saying about Japan, two questions would appear to be very much on your minds, as they are on mine. The first question is: How has Japan done it? What is it that has led to the tremendous showing that Japan is now making in business, trade and the new presence that Japan is forming in the world of nations? The second question is: What can Canada do about it? What should be or can be Canada's reaction to Japan's new presence?

I would like to deal with the first of these as a historian of Japan. This is my profession. To the second question I shall respond as a person very much interested in the training of Canadians to deal with the reality of the Pacific basin area as it exists today.

The first point takes the form of a very quick interpretation of the whole of Japanese history. I have tried to find out what is the major element in history that sets Japan apart from the other countries in Asia. Here we may find some answers to the question of how has Japan done it?

Japan's dynamism basically rests upon its self assumption that Japan is a cultural entity which has had to unite against foreign domination or the threat of foreign domination. The Chinese have always conceived of themselves as the central nation. The word the Chinese use for themselves is "Chungkuo" which means central kingdom; therefore, the centre of the world. This of course is the position that China occupied in old East Asia.

If one talks about the traditional cultural zones of Asia, he finds there are three, separated by the tremendous mountain block of central Asia, where the world's highest mountains have until recently formed a formidable barrier to any regular intercourse between them: the Islamic world of Western Asia, the mainly Hindu-based world of Southeast Asia and the Chinese cultural area of East Asia. The Chinese cultural area includes what is now known as China, and some extra to the west into the Soviet Union, Korea and Japan.

The glue which held the Chinese cultural area together was the Chinese written language, much as the Latin world or Western European world was at one time

brought together through the language of the Roman Empire and the church of Rome. All of East Asia, including Japan, has been unified by the Chinese language. The Japanese had to adopt Chinese writing to express their own language. In their earliest written history one already sees clear indication that the Japanese, although forced to rely upon the Chinese written language to record all their history, were at great paints to differentiate themselves from China. The very word "Shinto", which is the traditional religion of Japan, is a Chinese word which uses Chinese religious concepts. The "To" is the word "Tao" which means "way". It is now the word that is used for highway as well as the philosophical system of Taoism. The word "Shinto", which the Japanese devised to set their native religious beliefs off from those of China, means the religion of the gods or the country of the gods. This word "Gods" in this case does not have the same meaning as the Christian concept has, but it refers to a Japanese attitude toward the supernational which differed from that of China. The first historical ruler of prominence was Prince Shotoku, who early in his reign, addressed a letter to the Chinese Emperor which said, "From the land where the sun rises to the land where the sun sets." We are told this displeased the Chinese Emperor. The Japanese already were thinking of themselves as different and their inferiority showed itself in claims to superiority.

There are later references, from that time on until the middle of the Nineteenth Century, full of words setting Japan apart from China. Of course, the Japanese geography helped in this respect. The southern tip of Japan is about the same latitude as St. Petersburg, Florida and the northern tip is about the same latitude as Montrealthe total area being about one-third of British Columbia, lying in a bow-shaped arc off the continent of Asia. Its closest distance to Asia is about 26 miles off the north coast of Hokkaido, separating it from Sakhalin Island. This is inhospitable country, cold and not a good place for intercourse with the mainland of Asia. The main way to get to Japan was through Korea, but here the distance was 120 miles, which is considerably more than the English Channel. You may have heard Japan called "the England of the Pacific," but Japan has been much more separated from the continent than England. They felt different from China, and they wanted to make it clear that they were different.

While they were part of the Chinese cultural area, the Japanese succeeded in fending off any military attempts by China to invade Japan. There were two attempts in the twelfth century when the tremendous power of the Yuan dynasty troops swept eastward. They were miserably defeated by the Japanese with the aid of autumn hurricanes. One wonders whether the Korean sailors, who had no love for their over-lords, perhaps allowed both invasions to be timed for September in the knowledge that very likely a hurricane would come along and wreck the fleet. The defeat of the Chinese at that time came to symbolize Japanese resistance to invasion. The only time they were successfully conquered was in 1945.

The Japanese sense of a differentness and seclusion from the rest of the world was given additional strength

about the year 1600. Up until then the Japanese had begun to act much like the countries of Western Europe at the same time. Japan also felt expansive. In the middle of the 16th century, for instance, there was a Japanese colony with a great deal of trade at the Thai capital. We have records of Japanese foods being imported for the lonely colonials. There was also a great deal of commercial activity in the Philippines. The Japanese were known as good sailors and swordsmen, and thus well equipped for expansion.

The Japanese might well have gone on to be very adventuresome explorers of the West, but suddenly around the year 1600 they pulled in their horns. The reason for this was the first approach of the western Europeans, Portugese and Spaniards coming as traders, missionaries and military forces. The combination of the the three roles made the Japanese Government decide that it was better to exist in complete isolation from the rest of the world than to risk the threat of foreign takeover. This sounds very modern. They withdrew and cut off all intercourse, from 1600 until 1853-almost 250 years, existing in absolute isolation with two very small exceptions. A few ships a year were allowed to come to the port in Nagasaki, which is on the west coast of Japan and a long way from Kyoto, the civil capital, or Tokyo, the military headquarters. Most of this small number of vessels came from China or Korea. One ship a year came from Western Europe: a Dutch ship. The Dutch were selected because they pointed out that as Protestants they would not constitute a threat to Japan. The one Dutch ship brought in trading goods and new books from the Western world. No books about Christianity were allowed to come in, but the Japanese wanted to keep abreast of Western technology. Works on medicine and arms in particular were allowed to enter and were sent to the military headquarters of the Government, in what is now Tokyo.

The second reason the year 1600 is important is that beginning then the Japanese became politically unified. They then developed a central government stronger than anything in their past history. For over a century previous, Japan had been broken up into what is often called a feudal period, in some ways similar to the European feudal period characterized by very small decentralized governments.

In 1600 the Government finally won over the last of their opponents and developed a new coalition centred in Tokyo. Their decision to pull in their horns and to withdraw from contact with foreign countries in part resulted from the attempt to make sure that these foreign countries could not divide Japan once again. The strength Christianity showed in western Japan before 1600 seemed to them the harbinger of piecemeal assault on their hard won unity.

The Japanese in the 1600's achieved a secluded nation, a fortress nation and a unified nation. For the next 250 years they develoed in a kind of hot-house atmosphere a society which is as yet not very much understood, but similar in many ways to contemporary development in western Europe. This parallelism is important, because we are likely to assume that when Japan was forced to joint the Western Community of Nations in the mid-

nineteenth century—they were underdeveloped or backward. The Japanese themselves felt that way. After all, they were forced to open their doors before superior military power. They had no choice but to admit the American ships that arrived. They observed that they were far behind in the arts of communication, armament and diplomatic intercourse. They did not know how to handle Western international relations, since their international relations to date had followed the very different Chinese pattern. Out of the conflict between West and East in the nineteenth century, symbolized by Commodore Perry's arrival, a national agreement or consensus arose whereby the Japanese assumed a low posture vis-à-vis the west. In large part they continue this posture today. They assumed they were backwards and they would have to do the job of adjusting to the problems brought by the west. This is quite different from the attitude of the Chinese Government. The Chinese Government continued to maintain it was the centre of civilization in its contacts with western nations as well as eastern nations. There is a marvellous letter written in 1793 from the Emperor of China to the King of England. The English said they wanted to trade, buy tea and other things, and that England would sell various items to China. The Emperor wrote back that it was very kind of England to suggest that they purchase goods, but that unfortunately China did not need anything. Since it was very obvious that Great Britain could not possibly get along without Chinese tea, ginger and rhubarb-why they mentioned rhubarb, I do not know-they would be glad to let the English people have a certain amount of these commodities if they promised not to bother China. The Japanese reaction to Western incursion was very different. The Japanese were small and foreign ships were able to get almost within shooting distance of the capital, the headquarters of the military Government. They had to give in, because they knew their weakness and reacted in what I think is best characterized as the Avis Complex: "We are number two and we are going to become number one." That has been the Japanese attitude for over a century. Such an attitude implies defensiveness, a feeling that everything has to be tightly controlled. The Japanese felt they had to act with one voice vis-à-vis the west.

There was a second and opposed tendency which is symbolized by the adoption of the Japanese Constitution of 1889 which ushured in a liberal democratic Western tradition that would see the Japanese develop as part of the modern world. The attitude expressed in the constitution differed greatly from this concept of an embattled small nation. Between 1889 and 1941 these two points of view developed and competed. In terms of domestic Japanese history what World War II means is that the Avis complex of Japan won over the international and constitutional development within Japan, which saw Japan as one of the Western powers which would develop in concert with the Western powers. In other words, the Japanese chose to be Asians rather than internationalists, and this was a second-best choice. They chose to act as the spokesman for Asia and got themselves into a disastrous war with the whole Western world. I stress that point because I think it is important to understand what has

happened since 1945. Since that time these two extremes have still competed with each other. The occupation, largely engineered by the United States Government, of course, with the assistance of China, the USSR and the Commonwealth including Canada, provided Japan with a new constitution. It gave them a constitutional framework which combined the American and the British constitutions. It set up an educational framework that made the Japanese internationally minded. The constitution was imposed by the occupation with the willing acceptance of the Japanese. The constitutonal, western-oriented point of view became the norm for politics and for international relations. We now have maturing in Japan children who have grown up in this kind of a world, who are educated very well in English, which is rapidly becoming the second language of Japan, and who think of themselves almost as world citizens. I will refer to this fact later on.

The old defensive Avis psychology of the Japanese was given a new hold on life by the occupation's economic policy. The first economic plans for Japan after World War II called for its reduction to economic impotence, making it a nation that would never have a chance to develop beyond mere subsistence. After three years, with the cold war warming up and the Russians becoming suspect, it was decided the Japanese simply had to be put on their feet again. The economy in 1947 and 1948 was running about 45 per cent of what it was before the war. The Japanese were encouraged to develop a unified economic attitude vis-à-vis the outside world with centralized control over finances, imports, exports, and emigration and immigration. What we now see results from 25 years of this dual policy: a very vigorous Japan which is very much politically democratic but which maintains a very protectionist foreign economic policy.

This very short summary of Japanese history indicates one of the perplexing things about Japan. In Japan we find a country whose political institutions are now similar to our own but whose economic policy differs greatly. What strengths have the Japanese derived from this? One is a sense of group consciousness. Everything has to be done for the group. This results from both Chinese philosophy and Japanese experience. Responsibility in government during the 250 years of Japanese seclusion was always divided among members of a committee. The tradition persists. In almost all companies, decisions come not from top management, but from middle management, as the result of circulating a draft proposal which goes from the lower levels to the upper levels and has to be agreed to by each man. He puts his seal upon it to indicate agreement. When a policy is adopted everybody of any consequence has helped to make the decision; therefore they are all protected. This kind of thinking allows Japan to have, when one extends it throughout the whole society, tremendous unity.

Second, Japan has an education system that is aimed at achievement. A national unified system puts a high premium on what each individual himself can do. Inherited rank has no value whatsoever. There is no immigration and very little emigration. The Japanese also still maintain strict monetary control, which includes ruthless

rationalization in various aspects of the economy which do not seem to be productive enough, both in agriculture and manufacturing. Such control is exercised through the power of loans from the Bank of Tokyo.

Finally, for hundreds of years the Japanese have actively sought to learn from other countries, the missions of people who come from Japan to learn about the way things are done here continue a long tradition. They are not a show. The Japanese feel that they constantly have to do their home work.

What are Japan's weaknesses? I think there are many inherent in this. As Japan becomes modern it has to recognize that it cannot simply be defensive in its attitude towards the rest of the world. The committee method of making all decisions may become less valuable in the future. Sometimes there has to be imaginative forthright individual leadership. The Japanese are going to have to come to grips with this problem. Also there is now a generation of young Japanese who have grown up as internationalists with internationalist ideals and who want to travel aboard and take some of the wealth they have accumulated and spend it. Currently this is impossible under exchange regulations, because the yen is not a freely convertible currency. No matter how wealthy one is he cannot retire and take his wealth to, say, the Mediterranean coast. One cannot take a trip outside of Japan unless he has permission from the Bank of Tokyo to buy his fare and take enough money to live on while gone. Japanese passports, until less than six months ago, were good only for one trip and had to be handed in upon return. Now they have become valid for five years, as they have been in the Western world for a long time. As a result, an internationalist group of young people who want to move about easily in the world currently cannot, according to the letter of present Japanese regulations which, however leniently enforced, remain on the books and could be enforced more rigorously at any time.

Japan still depends heavily on imported raw materials. She lacks almost all raw materials except human talent. Hundreds of years ago this lack made no difference because traditional Japan was very well endowed with what its people needed; at the present time she needs almost all raw materials; therefore, she is very concerned that the sources of her raw materials remain secure. She also feels a tremendous need to be understood by other people. You will see in Japanese public relations a spate of materials written to help people understand the "real Japan." Their desire reflects their conviction of weakness, even though those who do business with them, do not consider them weak. The Japanese economy will undoubtedly grow in the future, but it probably will not grow at the same rate. I view with considerable skepticism the predictions of the futurologists that Japan will have a standard of living higher than anybody else by the end of this century.

It would be wise to recognize that the Japanese are not supermen. Chester talked about the American myth with regard to China and to a certain extent Canadians have shared in this myth. It assumes that someone on this side of the Pacific "sold China to the Communists". Canada and the United States share myths about Asia. They result from our ignorance about that continent. The myth

about Japan has continued for four centuries; in Western Europe and North America the Japanese are either considered supermen or superdevils and not just plain people. The very first thing one has to recognize is that the Japanese are just plain people. Some individuals here still see them as supermen, as the missionaries did in the sixteenth century. The missionaries from Spain and Portugal used to write marvelous letters to Rome about the Japanese. Before they were published they were censored, because in Rome the officials thought it was impossible for an atheist to be so good. Francis Xavier, the first missionary, lauded the Japanese, but he said that their language is the invention of the devil to keep such a marvelous group of people from Christianity. In general, it has been the view in Europe from the sixteenth century on that the Japanese were super people-extra good. Then in World War II they seemed super bad. Both attitudes form part of our cultural baggage, and we must recognize it for what it is.

I would favour attempts at a unified Canadian approach to the phenomena of Japan. Mr. Pope said that he wished there was someone in Canada thinking as clearly about the use of Canadian National Resources from the Canadian point of view as there is in Japan, thinking about the same subject from the Japanese point of view; I certainly agree with him. No institution seems to exist for dealing with this problem at the present time. If something is not done about it Canada will never be able to operate with any kind of centralized approach. It will not be necessary to ape the Japanese, for they will lose some of their centralized control. The Canadians can improve their situation if they devise institutions to give themselves a more unified approach.

One way to help dispel the myths and help devise new institutions is to develop a plan for training Canadians to deal with each of these areas. There is a new Canadian Society of Asian Studies which began last year. The incoming president is E. G. Pulleyblank, probably Canada's most distinguished Sinologist, or student of China. As far as we can tell, almost all of the specialists, at least academic, in Canada, belong to that organization. There has been an attempt to get government and business people interested. The Society provides one way in which we could develop a national policy for training a certain number of specialists in these areas. I think we can learn from the Japanese. English is fast on its way to becoming the second language in Japan. It is compulsory that every Japanese student begin English in grade seven and continue until grade nine. Once he enters high school his teachers have had to assess his ability in English. If the student takes any further extrance examinations, the most important subject will be English. The whole educational pyramid is based on very rigid and objective examinations. If the student reaches the top and becomes a graduate of one of the major universities, the firm in which he will enter and probably remain for the rest of his life will have chosen him after giving great attention to his knowledge of English, particularly if that firm deals with the Western World. Once hired he will then be given additional training. In addition to English new company men are often trained in the skills of playing cards, golf, and relaxing western style. Young branch

members who play golf well will suddenly find themselves called back to the home office in order to improve the boss's golf. When his visitors come from abroad they will have a game of golf and perhaps he will not lose too badly or he might even win.

Should I go on to say that Canadians should learn the tea ceremony and judo? Perhaps. It is in these arts, and in the military arts particularly, that one gets to the core of Japanese training. I did not learn judo or the tea ceremony, but I did sing some of the chants from the Noh, one of the traditional Japanese forms of drama. I found that through the training I received I got a tremendous sense of the way Japanese society worked.

Important as their skills may be, however, far more important is language. We should have a good language program for Japanese, Chinese and probably one for Hindi. Japanese and Chinese are much more important than Hindi, because of the residual effects of colonialism in India and, in fact, throughout the rest of Asia. Japan, China and Thailand are the three areas that were not colonialized. They have very distinct cultural backgrounds and distinct languages. If we are going to understand and do business with them we must take their languages seriously.

There is every indication that Japanese will be one of the most important languages in the world. It already is the third most important scientific language, after French and German, in terms of the amount of scientific literature published in that language. If one wanted to be acquainted with what is going on in the world, the best single language to know would be Japanese, because the Japanese language is so set apart from other languages of the world that the Japanese translate everything. If one took the output in Japanese and compared it to the combined output in English, French or German, which is what we expect our well-trained people to know, then the Japanese would not have such superiority. The person in the Western World is expected to know other western languages than his first one. In Japan, in spite of massive English instruction, many know only Japanese. Unless they leave Japan there is no need to know English.

Even though one might say that Japanese is not the most important language to know, it certainly is necessary to business in Japan. When the representative of Canadian Pacific gave evidence earlier he assumed that one of the reasons it was so difficult for a small Canadian firm to do business in Japan was because the interpreter worked for a Japanese Trading Corporation. I do not know if you remember the quotation, but he said that he thought they would be in real trouble simply because they had to deal through an interpreter who basically worked for the other side. It was interesting to note that there was no thought given by any of these business-men to use a Canadian, who knew the Japanese language, as an interpreter or to monitor the Japanese interpreter. You had in Mr. Pope one of the very few people I know of who could do that, yet he is no longer serving Canada in business or in government.

Let's get down to the specifics of what I propose. Language training is most effective when the person has

sufficient motivation to know that he wants to learn a language well. Children can grow up in many languages, but if they don't continue in them they forget as quickly as they learn. My five-year-old son, after one year in Japan, spoke the most beautiful colloquial Japanese. He went to a Japanese school and we often spoke Japanese between us. En route home, after arriving at the New York Airport, my son called his uncle. His uncle said, "Christian, how do you like being home?" And Christian said, "I like being home very much, but I don't speak English so good." Just a little catch of breath on the other end of that phone, and we never heard another word of Japanese. He now does not know any four years after he spoke it so fluently.

When a young person gets to the stage where he really wants to learn a language to use it the rest of his life, then one should pile it on. Unfortunately, a person who is a good linguist at this stage is not likely to impress anybody as a good bet for practical affairs; this is a continuing problem. When a 20-year-old student starts a language, you have to assume that before he knows the language and enough about practical affairs so he can be of service, it will take about ten years training. This had to be either on-the-job training or subsidized language instruction. He has to have enough to support himself and some sense that when he finishes after ten years of training there will be someone around who will want to employ him.

Three intelligent Canadian Caucasian men visited my office last week. One was a student who had learned very good Japanese eight years ago. He wanted to be employed by a Canadian company that would allow him to work in Japan. He was obviously not a scholar and he did not finish his M.A., but his Japanese was good. He went to Japan because he was unable to find anyone in western Canada who was interested in him. I must say that I do not blame them, because at that time I would not have hired him if I had owned a firm. While in Japan he married a Japanese and they now have two children. He married into the family which owns one of the largest pulp and paper firms in Japan. He writes, reads and speaks excellent Japanese. Earlier this week I heard that he is a middleman on an oil deal between Arabian and Japanese interests. The stakes in it for him are personally a quarter of a million dollars commission if the deal goes through. He knows the Japanese language; he is a Canadian, but he is not working for Canada.

Another man, about 26 years old, has had enough business experience to enable him to get a summer job earning \$1,000 a month as an insurance underwriter. He has decided to give up temporarily his business career because he wants to train in things Japanese with the eventual hope that he will get into business as a Canadian firm doing business with Japan. He came in to see me to ask advice as to whether I thought he should take the job for five months at \$1,000 a month or spend the summer in Japan. I suggested that he take the job, finish his degree and then spend about four or five years in Japan. I also pointed out that when he returns it that once this is done his business experience and Japan area experience will make him very valuable. I think he

has enough self-confidence and ability to go ahead with such a training program.

The third young man was eighteen years old when he came to us two years ago. He has energy in all directions, good language background and dedication to spend his life dealing with Japan. We told him that if he really was determined at this stage, that he should go to Japan and spend a couple of years learning the language. He did and subsequently served as a guide in the Canadian Pavillion of Expo '70. He is now very unhappy back in Canada. If one really gets oriented to life in Japan, when he returns he has a re-entry problem. He is now wondering whether it is worth while to continue his Japanese and whether there will be anything at the end of the road. I told him that there probably will be, because the way things are going, if he develops and matures the way he probably will, and that in another five or six years, when he gets on-the-job training, he will be a very valuable person. He may change his mind and give it up entirely. He is now at the stage where one wants to encourage him with long-range prospects.

Not all stories are so gloomy. There is a fourth student who spent a couple of summers in Japan before graduating. He wanted to work for a large Canadian firm in Japan on graduation. He was not accepted, but he did get a Japanese Government fellowship to continue his study of language for two years in Japan. He used it and became the assistant in charge of personnel at the Canadian Pavillion of Expo 70; this added administrative experience to his good knowledge of Japanese. There is a happy ending to that story. He has gone to Japan with his bride and to my knowledge, is the first MacMillan Bloedel representative in Japan who knows Japanese. I can foresee a very good future for this person.

I have mentioned the problem of training. Now, I would like to give my opinion as to what should be done in Canada. We should have a program which assists students who show capability in these very difficult languages. This assistance would enable them to live while they are spending the necessary time and, more important, provide them with incentive. It is a tremendous emotional problem to try to learn either Chinese or Japanese well. When I say "well" I mean to achieve the same kind of bilingualism that is the ideal in Canada.

On an airplane in Canada you are often offered a French or English newspaper. On every plane there will be some who will choose one, not on the basis of the language, but on the basis of content. They may want to know what is going on in Montreal instead of Vancouver. I think it is safe to say that there are not ten Caucasian Canadians who, given a choice of English, French or Japanese newspapers, would ever choose a Japanese one first. Canada needs a few people like this, and to get them it must provide assistance.

We should also have an institution for research on the various areas of Asia. Its work could include applied research in terms of things like markets and it could include more general cultural background research. There is no national policy on this, as far as I know, in the United States. There is in the Soviet Union and they are doing very fine work. Because the libraries are to the

social scientists and humanities what laboratories are to the physical scientists, a library policy should be developed which would be coordinated with the national library to determine what we want to have in Canada on these various countries. We receive all Japanese Government publications at the University of British Columbia's Asian Studies Library, which is designated by the National Library as its Japanese language repository. This has already been started and I think it should be fully utilized because if too many competing facilities are established library expenses can get out of hand.

There should also be provisions for continuing education, the sort of thing which one can do in short seminars or courses for people who are already involved in professions or business. On March 22 and 23, for instance, the University of British Columbia's Department of Continuing Education will offer a two-day seminar on business in Japan. They are charging \$150.00 per student for the two days, and I think the students will get their money's worth. One speaker will be the export manager of one of the largest security companies in Japan. He will come to Vancouver from Tokyo especially, at his own expense, to talk to participants about buying stocks and bonds and financing business in Japan with Japanese resources. The question about stock investment in Japan has come up in this committee. At the seminar there will also be a professor from the University of California at Los Angeles who is going to talk about Japanese business management. A third one, who is a specialist on Canada-Japan trade, will discuss the same questions as I am dealing with this morning.

As I flew east yesterday I reflected, "Why can't this be a road show or why can't businessmen in other parts of Canada be informed so that they can take advantage of it?" A national institution charged with continuing education in this field could very well organize and advertise such seminars.

There should also be a national roster of people competent in the area of Asia so that they can be matched up with those seeking help. Chester Ronning told you of his problem when he was asked to select someone who could speak sufficient Chinese to act as an interpreter at the end of World War II and how in the end he hired himself. Skills in Chinese and Japanese in particular are specialized, hard to develop and so infrequently found. Companies that need people with them often do not realize there is anyone around who might fit these specifications. Therefore they do not even try to find them. They might be induced to look if they knew such a roster existed.

Canada has a chance to gain from the experience of others. I mentioned the U.S.S.R.—which has two large institutes, one in Leningrad and one in Moscow—which deal with all aspects of problems in East Asia at a very high level. The United States has spent about \$20 million over the past five or six years to train people in difficult languages. Their program was financed through the National Defence Education Act, and therefore it was tied to defence expenditures. We do not know how much harm has been done to this program due to the fact that people who were being trained in Japanese and other languages had to use calling cards which linked them to

the American military establishment. There was an attempt made to establish an international education act which would not put granters in such a difficult position. It was passed but never funded. With the National Defence Act running out, it is the hope of many people concerned with Asia that the International Education Act will be funded to take on this function.

Finally, in developing a policy of this sort, Canada has an advantage which it should not overlook. In general, and I would like to end with this statement, Canadians should be aware of their advantages. Mr. Pope said that the Asian presence of Canada has resulted largely from its missionaries, indicating in some way that this was a disadvantage. In Ronning's personality you saw it was not necessarily a disadvantage. He comes from Canadian mission stock, and his enthusiasm and concern for the people of Asia looked to me as though they were infectious.

I might also mention the late Herbert Norman, a distinguished Canadian diplomat who was born in Japan and grew up in a missionary family. He went on to do graduate work in Japanese studies at Harvard and published an interpretation of Japanese modernization which has become a classic, and is in fact used in Japanese translation to teach Japanese history to Japanese students. If one were to try to name an individual who could be considered the second most distinguished Western scholar on Japan, Norman would probably be the individual he would select.

Secondly, I feel Canadians gain a great deal from the fact that their country is bicultural. This is a weakness in terms of dealing as a unified whole with other nations, but it is a strength in terms of training one to deal with an entirely different cultural area.

We treat the problems of doing business in Japan as particularly difficult, but there are probably similar examples in Canada where the Anglophone community tries to work with the Francophone community. This kind of experience, although it may not enable Canada to solve everybody's problems throughout the rest of the world, does mean that the person trained in Canada has ingrown a respect for cultural diversity which the Russians, the Americans and the Japanese do not share. Thank you.

The Chairman: Thank you very much. The attention paid to your testimony is a compliment to its content. Senator Fergusson, would you be good enough to lead?

Senator Fergusson: Thank you, Mr. Chairman. I would like to thank Professor Howes very much for his presentation. The historical background was very well put. He has answered some of the questions I was going to ask, as well as giving me reasons for things I had wondered about before. One of them in particular was why it was only in the middle of the 18th century that the Japanese apparently got what you call the Avis complex.

Professor Howes: I am referring to the Avis Rent-A-Car advertisement.

Senator Fergusson: I wondered if that was brought about because of Commander Perry's visit.

Professor Howes: This came about when China was the great neighbour and the great threat.

Senator Fergusson: Some of the things you brought out I find most interesting. You speak of encouraging our young people to prepare themselves for positions like this. This is a great suggestion and is something we certainly could follow up. What I would like to know is, can we really hold out to them the incentive after they have spent all that time, that they are really going to have a good job? We are encouraging our young people to go to college and to get degrees which will prepare them for good positions in Canada, but we cannot even supply them with enough jobs. How can we be sure they will be offered jobs after they have spent all this time learning Japanese and about Japanese ways?

Professor Howes: Of course this is a tremendous problem which goes along with the tremendous increase in higher education. One cannot garantee anything. One cannot imply that the future will require people with these skills. Yet there must be a roster of people who are able to command these language skills. I am not suggesting a large number, but perhaps a small number of students who will be supported all the way through their training. I think this is sufficient. This specialist education differs from a general college education. A college education is taken for granted among certain upper classes. Training to become a psychiatrist is not. A person who is training to be a psychiatrist already has recognition in the society that it is a very important function. Perhaps he is motivated because he knows it is one of the highest paid professions in the country. I do not think students require that motivation for language training. In fact, I would not want people who were motivated simply because they thought they were going to get a high paying job. The kind of motivation one wants results from a reasonable assurance that students will be able to use their training when they finish.

Senator Fergusson: Can you guarantee they can use it?

Professor Howes: No, one cannot guarantee that at all. I am simply saying that this kind of training in itself should provide proper incentive. In my own experience, training of this sort always makes a person into a kind of custom-tailored product so that he has a hard time to settle down. This is always going to happen, because the training is so specialized. Yet, if they have enough interest to stick out the training, students will eventually find some way to use it.

Senator Fergusson: I was also especially interested in your reference to the new generation of youth who are becoming so internationalized. I would like to know if the Japanese, through adopting these international ideas, have lost all their beautiful traditions of the past. Are these retained by the new generation or are they just entirely westernized?

Professor Howes: This is a question that bothers many Japanese. Tonight you have performing in Ottawa the Noh Theatre of Japan. This is probably the classic expression of Japanese culture. I recommend it to anyone who has the time, because this will give you an introduc-

tion to a different cultural tradition. We have a young 20-year-old Japanese man who has been living in our house for a few months; he plays the guitar beautifully and his English language is improving. He comes from rural Japan. He has no interest in seeing Noh. I think this is true of many young Japanese. In general, the Japanese are not losing this part of their tradition, but it just becomes another interest from which they can select.

Senator Fergusson: It seems to me it would be very unfortunate if the world should lose those wonderful traditions, cultures and arts that have developed over so many years.

Professor Howes: Loss of the gracious old tradition is a problem posed by modernization everywhere and the problems of Japanese tradition in Japan are similar to the problems of old, culturally distinct traditions in all societies. A parallel is the disappearance of the Indian culture in Canada, but the Japanese are working more specifically to maintain their culture than we are ours.

Senator Fergusson: You made reference to the missionaries and Christianity. In reading the biographical material we have received, I notice that you have done a lot of research on this area and have written a great deal about it. I wonder if you would say something about what you think the Christian missionary influence has done. I would also like to ask you what is meant by the "no church Christian movement" in Japan, about which you wrote at one time.

Professor Howes: These two questions are inter-related and go a long way to explain how I became interested in the question of images or myths existing in the midst of peoples in the two nations. The Canadian missionaries have contributed greatly to the development of Japan. The Protestant missionary is seen there as a good and selfless person who considers the best interests of the people of Japan. Of course some missionaries have not lived up to that high ideal. They remained culture-bound, but not so much so as missionaries who went to other countries. Almost from the beginning the missionaries to Japan had to abide by Japanese law. They were seen as representatives of a superior culture who had a tremendous affection for the Japanese, and that is where the good image of the Canadian comes from-from this sort of missionary.

The influence of Christianity is, however, almost distinct from the influence of the missionary movement in Japan. The missionaries in the mid-nineteenth century sparked the conversion of a number of Japanese, but after that time missionary influence was confined largely to the schools and hospitals which they founded. This was a great influence by itself, but much more important in Japan was the way Christianity became part of the Japanese tradition through the work of the Japanese themselves.

The "Non-church Christian Movement" is the group in Japan which best synthesized, as far as the Japanese were concerned, the contradictory claims of Christianity, as a western cultural fact, and the uniqueness of Japanese culture. The Japanese developed a synthesis, an

interpretation of Christianity which essentially says that the whole western Christian tradition is not important to Japan. What is important in Japanese Christianity is the Bible and the individual's understanding of the Bible. That non-church Christian view is extremely influential.

Senator Belisle: My question is relevant to that. We have been reading that in Japan they are culturally disturbed by all this economic expansion. How deeply are they attached to their religion? Are they also experiencing the same problems in regard to education and religion that the Western World is now facing?

Professor Howes: Yes, I think this is a common factor of rapid industrialization and modernization. Religion in Japan is not expressed by the categories which we use to express it. We would say that religion in Japan is Buddhism, Shinto, Taoism and Christianity. In these categories we err. One cannot assume that each is separate and distinct, because the Japanese do not. Upon asking the average Japanese what his religion was, out of 90,000,000 Japanese in the 1960 census there were 135 preferences. The average Japanese said that he belonged to one-anda-half religions. This is impossible by our standards, but it is common sense for the Japanese. The real functional religion, if one takes religion as the thing in which a person puts his final trust when all else fails, is Japaneseness and the whole of Japanese tradition. This includes: a great deal of Confuscianism, which came from China; a great deal of Shinto, which is a local tradition; Buddhism, which came from India and China; and a great deal of Avis complex-that is, "I am a Japanese and ultimately, everything else having failed, I fall back on the fact that I am a Japanese and I am different." As I have just said, this last item is going to die out. The sense of uniqueness of the Japaneseness-this being the thing that both sustains a person and defends him-is dying out. Therefore, the alienation from traditional religion which has occured in Japan takes the form of less nationalism or less culturalism.

Senator Belisle: Can I ask a supplementary? I was very impressed a while ago when you spoke of their economic grouping. Could that be because of their religious philosophy?

Professor Howes: Yes, because of their sense that they are different as Japanese and that all of Japan is different from everybody else. It is a gross over-simplification to say that this is the only factor. This is, however, the influence that holds together the whole philosophy. It looks as if that influence now is beginning to dissolve. For a hundred years one has been able to say that all Japanese have to work for the benefit of Japan, and that such community effort will benefit every individual. The Japanese have felt they had to make Japan strong against the West. The same argument is now used in China. The Japanese have come to realize they are one of the wealthiest nations in the world and have all the problems of industrialization. It most recently came out that the cost of labour has begun to outstrip increases in productivity. This can only mean the individual labourer is now saying, "What is in it for me?"

Senator Fergusson: In view of all the discussion at the present time about the status of women, what can you tell us about the status of women in Japan? When I was there in 1965 10 per cent of the doctors were women, and more than that were in the dental profession. I wonder if the percentage is increasing or decreasing, and what participation women now have in government, business and cultural activities.

The Chairman: I might say that I did my best to prepare the witness for this question!

Professor Howes: I do not know the statistics, but I am sure it is a cultural fact that women are playing an increasing role beside the traditional one of homemaker. Women can compete on an equal basis for entrance into the whole educational spectrum. This includes the very top ranking university, the University of Tokyo, which there is no equivalent in North America. Harvard is not to the American educational system, nor Toronto University to the Canadian educational system, what Tokyo University is to the Japanese. Tokyo University is the aim of every studen, and increasingly girls are getting in. As a result the Japanese now have the problem of girls completing this training and not being able to find jobs. There are certain areas-and medicine is a very good example—where women have been accepted for a long time. There are women legislators, particularly in the equivalent of the Senate, in Japan. They are very active and are well informed. In business, however, and also in the academic world, entrance by women is extremely difficult.

We have a friend who graduated from one of the major Japanese universities, later receiving a doctorate at Yale. Her husband works for the International Monetary Fund in Washington. She got a job teaching in her alma mater before she was married. She knows that if she quits that job she will not get it back. In spite of the fact that her husband is stationed in Washington and she has a baby which the grandparents look after, she teaches at a Tokyo University. While it is not in session she joins her husband in Washington.

Senator Fergusson: Is it that difficult for her to get in again?

Professor Howes: Yes, right now. This condition will change, and it is clear that the same development will take place as has already taken place here.

Senator Fergusson: Has there been any move toward having an investigation of the status of women, as in Canada?

Professor Howes: No. In my experience such investigations form one of the great elements of the Canadian legislative process.

Senator Fergusson: I would like to ask one short question. There were a great many schools set up by the missionaries. I visited one and I was very impressed. This was established by the Methodist Church in Canada, and I understand it is now run by the government. Are they all taken over by the government?

Professor Howes: Do you remember the name of the school?

Senator Fergusson: No.

Professor Howes: They are not run by the government. It was conscious mission policy, beginning in 1872, that Japanese should as quickly as possible operate their own churches and schools. This is a continuation of that policy, a recognition that the missionaries could not, even if they wanted to, continue effective administration without Japanese assistance. In general, all schools must now adhere to the standards set by the central Government, and to that extent they may be considered taken over. There is a very healthy private university group in Japan. The old mission schools belong to this group. They are funded almost entirely from Japanese sources.

Senator Macnaughton: Professor Howes, on behalf of all the other members, I would like to thank you very much, because to my way of thinking you have unified the thoughts of a great many of the previous speakers. If I understood the thrust of your remarks, it was that Canadian policy should advance to the stage where a department or an institute should be set up by the government, or perhaps the task could be delegated to a university, for the purpose of preparing Canadians for future trade and cultural dealings with Japan. Is that right?

Professor Howes: Yes.

Senator Macnaughton: You mentioned a national research institute on Japan. Where would we get the money?

Professor Howes: I deliberately tried to skip that, because of the constitutional problems of funding educational programs. The easiest answer, of course, is to say that the federal government should fund it. I would rather say that if some imaginative approach could be found, this would be one of the things which should be considered. It seems to me rather unlikely that the provinces would do this on their own. If they did, what they designed would be primarily for provincial rather than for national benefit. Therefore, some national funding, which could perhaps be a combination of federal, provincial and business, would be ideal. The resultant national institute could in fact, work largely through existing university organizations. To set up a separate institute and separate building would probably not be warranted. There are both language and are training at existing universities. This existing set-up could be used to the benefit of Canada. The reason for a national body to organize at the top what already exists would be to single out the areas where the universities would make their individual contributions and to get cooperation on a national level, rather than allow a proliferation of competing programs. This, in itself, is a highly political statement. I happen to come from the Canadian university that has the greatest investment in Asian studies. The natural reaction would be for me to suggest that all Asian studies in Canada be centered at the University of British Columbia. There are, however, other universities

outside of British Columbia as well. It seems to me that a national body should make tough decisions and decide to what extent a study of Asian can become a normal part of the curriculum of a university, and to what extent more expensive research facilities and advanced language facilities should be centralized in a few universities.

Senator Macnaughton: This is why I suggested it might be delegated, rather than setting up a colossal institute in Ottawa. We have facilities at UBC and other places.

Professor Howes: The University of British Columbia and Toronto University are the main ones. McGill, even though it had a promising start, for financial reasons is giving up both the Chinese and Japanese languages this year. Windsor has a small Chinese program and Calgary, Edmonton and Victoria have small Japanese programs.

Senator Macnaughton: Do you know whether External Affairs has any policy in this respect?

Professor Howes: I do not know.

Senator Macnaughton: Do you know if Industry, Trade and Commerce has?

Professor Howes: I do not know.

Senator Macnaughton: You are asking for a practical outlet for your valued graduates?

The Chairman: Before you answer that I would say that Mr. Dobell has drawn to my attention a question asked in the House of Commons on March 4. Perhaps I can put it on the record. This was asked by Mr. Rowland on March 3rd. It is Question No. 1,066.

Is the government, in its intention to devote greater attention to nations on the Pacific Rim, considering any or all of the following programs (a) financial assistance to universities to enable them to establish Pacific Rim area study programs and courses of instruction in the languages of the Pacific Rim nations (b) incentive grants for students enroled in intermediate and advanced study of Chine, Hindi, Malay-Indonesian, Bengali, Japanese, Vietnamese and other languages of the area (c) seconding appropriately trained faculty members of Canadian universities to Canadian missions in Asia (d) seconding promising young executives from commercial, industrial and financial concerns to trade missions in Asia?

Professor Howes: External Affairs has, to my knowledge, trained and assisted in the training of a number of individuals. Mr. Pope was one and Gilles Lalande, who is now at the University of Montreal, is another. I would not call this a program. They have however been aware of the need to train individuals in the Japanese and Chinese languages. External Affairs considers itself a small service, to use their phrase, and they feel they cannot afford to train area specialists—someone who would in fact give his life to work with Japan and China alone. They might train him, they feel, but they could not afford to keep him going up through the ranks for a whole career in one area. The United States has the same problem in the State Department. I think that perhaps

the British experience and the Russian experience are most helpful. The British have for many years trained specialists, such as George Sansom, who became the greatest non-Japanese authority on the history of Japan. He was trained by the British Foreign Service and served elsewhere then Japan occasionally. It was always known throughout his career, however, that his main interest would be Japan and that he would be returning there. As a young man he was given a number of years of almost nothing but language work in the pay of the Embassy and he was able to wander throughout Japan a good deal. I have heard some of his stories of hiking through the mountains and really getting the language into his blood in the way Canadian External Affairs Officers, which we have mentioned, have not been able to do, partly because Canada does not consider language training that important. Also there is concern that if one is trained he would be trained out of any other ability, or External Affairs could not promise him enough time in Japan to make it worthwhile. I feel such an attitude to be short-sighted.

There should be within External Affairs some people who are given the chance to learn the language, and Mr. Pope came closer to this than anybody I have met. They should also have the assurance that even though they may not spend the rest of their careers in Japan, because I think anybody would think this is not entirely healthy, most of their assignments would bring them back to Japanese problems or to Japan itself. We certainly need a similar program with China. The fact of the matter is that these are the two countries with the most distinct cultural traditions which do not also have a tradition of using one of the major western languages widely. They are about the only two in the world. It is important also to know Hindi, but there is enough remaining from the Commonwealth traditions so that one can get along with English, at least in the top levels of the Indian government.

Senator MacNaughton: Would you react adversely to the suggestion that we should have a national institute some place or another, presumably in UBC, which in effect would concern itself with the theoretical side, which is very important basically for fundamental instruction and consideration of policy questions, with the practical outlet being through External Affairs, or Industry, Trade and Commerce, or business organizations? In this way, students could graduate with their double PhD's and whatnot and be guaranteed something, if guarantees are necessary for a vigorous student.

Professor Howes: "Guarantee" is a very strong word. If he is willing to sweat out the work required to get the training, he will have enough self-confidence to know he will fit in eventually. We should support him to finish training but expect him to find a job.

Senator MacNaughton: I will certainly withdraw the word "guarantee".

Senator Belisle: If he has to go to the well, there will be water for him.

Professor Howes: When it comes time that he is thirsty.

Senator MacNaughton: Has the United States any policy in training for Japan?

Professor Howes: Yes, the United States has many policies. The State Department, as well as the Army, has its own schools for training. The National Defence Education Act has provided for training within the universities. A national institute would be a better idea than the American program. The administrative officers of that institute could be anywhere, though preferably in Ottawa. It would delegate or apportion its work among the major centres within the Universities. It would also coordinate the work that is being done in the major universities throughout Canada.

Senator MacNaughton: I will go quickly through a few questions leading up to my main question. We have been talking about the modernization of Japan. Would you consider that this is a betrayal of its broad national heritage—namely, "Let's sell out to materialism and let's be a pacific nation in the future"?

Professor Howes: Pacific with a small "p"—not war-like?

Senator Macnaughton: Yes.

Professor Howes: In the first place I think that Japanese modernization had progressed further in 1850 than most people give the Japanese credit for. Their development has many parallels with that of Western Europe. This is just a guess, but I think historical research will show that the Japanese were then quite far along the road. They opted for further quick modernization because they feared what would happen if they did not modernize. I do not think this was a sell-out. To use these words assumes a Japanese tradition which I would not agree with unless one says that all modernization is a sell out and that materialism necessarily prevails over higher spiritual traditions. To the extent that what is going on in what used to be called "Christendom" is similar to what has been going on in Japan, then one could call the West's experience a "sell out" of Christian tradition, but we would not use those words in terms of our own tradition and I do not think we should use them in terms of Japanese tradition.

Senator Macnaughton: Is there ever questioning by the Japanese of their national goals and values, or do they still just want to be the biggest and the best?

Professor Howes: It is beginning, but questioning is more to the point in the Western world now than in Japan.

Senator Macnaughton: What about the ecological side effects in Japan? It has already become one of the top industrial nations, but what about the price they have to pay? Is that being questioned?

Professor Howes: Although I think he would probably prefer not to be quoted, a Japanese who has the major responsibility for making economic decisions at the national level told me in a conversation a few months ago that the biggest economic problems faced by Japan at the present time were in this order: first, inflation; second, pollution; and third, that Japanese trading partners might turn against her.

Senator Macnaughton: Would you expand on the latter?

Professor Howes: He did not expand it, but I think it is the concern for raw materials and the image of Japan as being so powerful, strong and grasping—the economic animal. This is a phrase almost any Japanese will turn white at, because if this reputation becomes too widespread it will in fact make it more difficult for Japan either to sell or to buy. Of course, the Japanese are concerned, because they must maintain a flow of raw materials. I think the greatest guarantee that Japan will remain pacifist or "pacific", to use your adjective, is its dependance on imports. If one torpedo hit one of the huge Japanese tankers it would not only cause pollution in the ocean for hundreds of miles around, but it would also threaten all industry. The Japanese have very little coal left, and they depend on oil for a very large part of their energy. There are rumors that extensive oil deposits exist on the floor of Japan, west of Honshu. As far as I know, it has not been proven that anyone can get the oil out. At any rate, in the foreseeable future, they are going to depend on Western Asiatic Oil or South and North American.

The second question, pollution, reflects in part the desperate need for a large-scale investment of social capital in Japan. The tremendous GNP increase has been at the expense of the amenities of life and those who have travelled in Tokyo know what I mean—the reality of smog so that policemen require oxygen tanks to get whiffs of oxygen. I have not seen this, but I have read about it and my experience convinces me the need is real, There are crowded living conditions. An average apartment in Japan is not much larger than ten by twenty feet-two rooms and a small kitchen and even smaller bath. Sometimes it will be bigger than that. It is necessary for the Japanese to provide more room for living for its cities. The crowdedness as well as the lack of sewage systems can be interpretated as a kind of pollution. The mayor of Hiroshima used to say, when asked what Hiroshima's main problem was—the questioner was obviously expecting an answer about keloid burns having to do with the atomic bomb-that the major problem was sewage. This is true of most Japanese cities.

Senator Macnaughton: I remember reading a recent draft of Japanese law on the question of pollution saying that they were one hundred per cent in favour of all measures on coal as long as it did not interfere with industrial growth.

Professor Howes: This caveat at the end is very much a subject for discussion and concern.

Senator Macnaughton: The other day I heard a socalled authority speak on the future growth of Japan, and his opinion was that it would not necessarily outstrip the rest of the world. He discussed reduced population growth, raw materials, rising wages, living conditions, social policy, pollution, and competition. He felt there would be a stabilization before too many years.

Professor Howes: I agree. Stabilization will bring on political problems of such magnitude that it will be

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necessary for those directly interested in Japanese affairs to judge for themselves what is happening. This comes back to the necessity of Canadians who can read Japanese and who can operate easily in Japan.

Senator Macnaughton: What about the future collaboration between China and Japan?

Professor Howes: That is something we should think about. In the near future collaboration with Japan will always be influenced by the primary consideration of Japan's relationship with the United States. They would like to collaborate closely with China, to the extent that it does not threaten their relations with the United States. Currently, the present government, which is not socialist but rightist, is doing considerable business with China. The Chinese do not let political considerations overrule economic ones. So far the Japanese are not doing anything which appears to threaten their relationship with the United States. Relations with China will change slowly and will not become a paramount issue at least for quite a while.

Senator Macnaughton: What about Taiwan and Korea and their collaboration, both economical and political?

Professor Howes: I do not know the situation there, but I think in general it is the same.

Senator Belisle: Because the doctor is such a learned professor of history, I was very interested when he said only ten per cent of the passengers on a flight would choose their own newspaper. Could he tell me how they view intermarriage with boys and girls of the west. Are they still wanted in the family after marriage?

Professor Howes: I said I did not think there were ten individuals in Canada who would choose a Japanese language newspaper over a French or Canadian one. I meant it as an indication that there are not that many people who have sufficient fluency in Japanese so that they would automatically choose the Japanese newspaper. When you travel in Japan there are many English papers published. If you are a foreigner it is assumed that you are going to taken an English one. I was simply referring to the fact that there are very few Canadians and so very few who would know enough Japanese to be able to read a Japanese newspaper. How would they view marriage with western boys and girls? They do not like it. There is a strong cultural revulsion against intermarriage, very similar to what the parents of a western child feel. They are dead set against it because they fear it will bring future harm to the lives of the young people. These are the best parental reasons. Very recently one of the students, who had studied in British Columbia, married a Japan Airline stewardess who had been on the trans-Pacific run. Her father wrote a stinging letter to Japan Airlines saying that if this sort of thing happened, parents would not let their girls become stewardesses and that they should exercise more care. He then put pressure on his daughter. She has since quit her job, returned home, and left her husband because of her father's attitude.

Senator Belisle: I have read that the whole Japanese community is based on the family and that traditionally the girls are the important people and not the boys.

Professor Howes: No, the boys are the important ones. It would be assumed that when a girl married she would go to the family of her husband and live in her husband's home. It is definitely a male-oriented society. A male heir is considered much more important than having a daughter. If a family is "unfortunate" enough to have only daughters they will often adopt a boy, so he is officially a son, and then he will marry the daughter.

Senator Belisle: You also spoke about the passport which they had to turn in. I understood it was because of their military occupation.

Professor Howes: The major reason the occupation succeeded was that its policies were so in line with traditional Japanese ways of thinking. The allied occupation of Japan may have begun the practices of handing in passports, but the fact is that it has been going on for twenty years since the occupation ended and it has been accepted as natural. Even the Japanese foreign correspondents, who should be able to get in and out of Japan in a day, have had to hand passports in and wait six weeks before getting a new passport.

Senator Belisle: In recent months we have been reading about a dispute between Japan and the Soviet Union over the northern territories, the Kurils. What is your opinion about this?

Professor Howes: It is a continuing dispute. The Soviet Union never signed a peace treaty with Japan after World War II, but they do co-operate on many things. The Soviet Union has even approached Japanese capital to help them develop Siberia. There is a residual problem regarding a few islands. Before the end of World War II Japan owned the southern half of Sakhalin and other small islands. This has not been a very hot dispute, but one does hear statements from the Japanese that they are Japanese islands, and opposite statements from the Soviet Union. This is what formally keeps them from signing a piece treaty, but it does not hamper all sorts of practical cooperation.

Senator McLean: What about the general economy of rural Japan? What opportunities do the young men or women have for specialized training or education? Would money be allocated to Japan? Would such money reach outside of the highly industrialized centres, such as Tokyo

Professor Howes: You are thinking of regional disparity in Japan? I think it would be highly unlikely that money would come from outside of Japan for this purpose, because if the Japanese want to work on regional disparity the money is available to them. A very quick answer to your question is that the young people in general see no future in the rural areas. The drain away from the rural areas has been high and there are now only about twenty per cent of the Japanese population living in rural areas and almost eighty per cent in the cities. At the end of World War II, or as late as the early

fifties, it was fifty-fifty. In the summer of 1966 we visited a village in western Japan. The assumption was that all the graduates of the local high school would go to Osaka. In 1946 the local young men's group had over a hundred members and in 1966 it only had about six. The tremendous problem is whether they will be able to persuade people to remain in the rural areas in order to keep the local economy running.

Senator McLean: Do the people within the cities have all the necessary facilities?

Professor Howes: No, and this is the area of social capital which I refer to. For instance, there is a relatively low percentage of homes which have telephones, though they are increasing. All homes have electricity, which is more universal than in Canada, and radios and television sets. They all have education and the only people who cannot read are the ones who are untrainable. But there are few sidewalks and parks. Due to a scarcity of parking space, a most effective way to limit car purchase has been to legislate that each owner has to provide parking on his own property. The lots are so small that there simply is not room to put a Japanese car along with the house. Often a man has to rent space in a commercial garage. If the cars are parked on the streets, the streets are impassible because they are so narrow. These facts do not come out in growth statistics.

Senator McLean: What are the opportunities for improvement in the future? Are they still going to have to put up with these conditions?

Professor Howes: This is the reason I think it is highly unlikely that the gross national product will continue to grow the way it has. People are saying, "This is our lifetime and let's make conditions a little better for us while we live, rather than constantly saving for future generations." Their problems are of great magnitude. There is a great amount of rebuilding and rationalization of land ownership that has to go on. The land within the cores of the cities has not been, in general, built up in subdivisions. Tokyo in 1850 was very close to being the largest city in the world and probably had about a million people. It had been allowed to grow up without main boulevards, for defence reasons, so that no invader could go directly to the capital. Contemporary Tokyo still suffers as a result. The system of street numbering is also very difficult. It takes a great deal of time to find a house in Japan. You cannot go along the street in search of a certain number, because the numbers are determined by which house was built first. The only person who will know is the local policeman who has a map, one must stop and ask him. When you rationalize that mess and put in roads and sewage facilities, the amount of expense will be tremendous.

The Chairman: As Senator MacNaughton said, Professor Howes, you have put together for our benefit many of the previous witnesses' testimony. I think this meeting has been extremely educational and most rewarding, and I thank you for your pleasant and thoroughly thought-out testimony.

The Committee adjourned.

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THIRD SESSION-TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 14

TUESDAY, APRIL 6, 1971

Respecting
The Pacific Area



(Witness:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman
The Honourable Allister Grosart, Deputy Chairman

and

The Honourable Senators:

Macnaughton Belisle McElman Cameron McLean Carter McNamara Choquette Nichol Connolly (Ottawa West) O'Leary Croll Quart Eudes Fergusson Rattenbury Robichaud Gouin Sparrow Haig Sullivan Lafond White Laird Yuzyk-(30). Lang

Ex Officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate.

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Tuesday, April 6, 1971. (16)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 11.03 a.m. this day.

Present: The Honourable Senators Aird (Chairman), Cameron, Carter, Croll, Eudes, Fergusson, Grosart, Lafond, Macnaughton, McLean, McNamara, Nichol, Robichaud and Sparrow—(14).

Present but not of the Committee: The Honourable Senator Inman.

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area. Witness:

Dr. Benjamin Higgins, Project Director, Centre for Research in Economic Development, University of Montreal, Montreal, Quebec.

Agreed—That a paper entitled "Indonesia", prepared for the information of this Committee by the Department of External Affairs, be appended to today's printed Proceedings (see Appendix "M").

At 12.35 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, April 6, 1971

The Standing Senate Committee on Foreign Affairs met this day at 11 a.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, with this meeting this morning we are moving into a new phase of our Pacific inquiry. Our topic is Canada's role in development co-operation in Pacific Asia. One of the most striking features of the whole region is the unevenness of economic development. Reducing this gap is clearly one of the most urgent challenges facing the more fortunate countries of the Pacific community, including Canada.

In comparison with other areas where Canada provides development assistance, I think that most of Pacific Asia is somewhat unfamiliar ground. There is a considerable national challenge involved in building up the familiarity and expertise that is so obviously required. I hope that our committee's deliberations may be a helpful part of this process.

I think our proceedings today may be particularly important. Our witness is uniquely qualified to speak about the broad processes of economic development and aid; he is also thoroughly familiar with the Southeast Asian milieu. As you can see from the biographical notes that have been circulated Dr. Benjamin Higgins has a formidable record of scholarship and practical experience in the development field.

We are very grateful that you could arrange to come, sir, and I am sure that the work of the committee will benefit greatly from your insights.

I might just mention that because of Dr. Higgins' special interest in Indonesia, he has been invoked to comment on the paper on that country prepared for us by the Department of External Affairs. I believe all members of the committee have copies of that document, which will be annexed to today's printed Proceedings (See Appendix "M").

After Dr. Higgins' introductory statement, which he tells me will be about 20 minutes in length, Senator Cameron will lead the questioning.

Dr. Higgins, you are most welcome, and we invite your comments.

Dr. B. Higgins, University of Montreal: Mr. Chairman and honourable senators, it is a genuine pleasure for me to be with you this morning. Southeast Asian develop-

ment is very close to my heart and, I believe, of fundamental importance for peace and prosperity in the whole world. As I told your chairman, I have a view with regard to Canadian policy in southeast Asia, particularly economic development policy.

Let me first say one or two words about the southeast Asia region as a whole. I need hardly say that southeast Asia is a major trouble-spot at the moment. In the absence of a major effort at reconstruction and development in that region, my strong feeling is that it will remain a serious trouble-spot for some time to come.

It is worth noting, to begin with, that southeast Asia as a region has never really had economic development, in the sense in which we normally use the term; that is, in the sense of a widespread and continuous improvement in levels of welfare for the masses of the people over a long period of time. Indeed, the evidence suggests that 1960 per capita incomes in the region as a whole may well be below what they were in 1860. This is certainly true of Indonesia, which is the country I know best in the region, It is probably true of Burma. It is probably not true of the Philippines. It is certainly not true of Malaysia. The region as a whole has been peculiarly stagnant, not only since World War II but also in the century preceding it.

There was, of course, a kind of development under the various colonial administrations but, by and large, it was a development which brought only very small proportions of the population and labour force into the modern technologically advanced sector. That experience also varies a good deal from one southeast Asian country to another, and indeed the difference in experience in that respect is the main reason for the sharp differences in the current levels of development among southeast Asian countries.

In Indonesia, for example, at the time of independence only 7 per cent of the labour force had been brought into the modern sector consisting of the big plantations, mines, and such manufacturing as there was.

In Malaysia, on the other hand, nearly half the labour force had been brought into the modern sector, and this is the main reason why per capita income in Malaysia runs around \$400 a year making Malaysia the second richest country in all of Asia, while Indonesia has never broken the \$100 a year per capita income ceiling. This difference reflects a difference in colonial history, partly the simple fact that the British really got interested in Malaysian economy only around the turn of the century,

with rubber. For this reason, European settlement came late in Malaysia. Consequently, the population explosion came late. The population explosion in all these countries followed European settlement and the efforts made by the European colonial administrations to improve public health and maintain law and order. That started in the early 19th century, around 1820 in Indonesia, and by 1900 the population of Java had already increased from 4 million to 40 million; and of course the population explosion has continued since. This is the main element in the Indonesian problem.

In Malaysia the population explosion is an affair of this century and consequently population pressure is not a problem; and it was possible to absorb a significant share of the labour force into the plantation, mining, manufacturing sector.

However, all of these countries are facing serious problems of one sort or another. The Philippines, with a per capita income around \$160 a year—do not take these figures too literally, as I have not checked them specifically for the purpose of this meeting, but these are approximately correct—had a period of quite rapid growth for about ten years after World War II, but then bogged down and in the Philippines, it is more or less stagnant, with very slow rates of growth. There is good reason to believe that the standard of living of the masses of the peasants and workers is in fact, going down.

The Philippines is a country with one of the most striking concentrations of income and wealth in the hands of a few, of all countries in the world. The rich are getting richer, the poor are getting poorer, and the contrasts are becoming ever sharper. I feel that this is a situation which cannot continue indefinitely, without change of some sort—revolutionary or as the result of a change in policy.

The Philippines is also a country which is world famous for its corruption. The Philippinos themselves make no bones about that. They have invented a nice word for it. They call it an "anomaly". When a million dollars worth of food aid rice disappears, that is an "anomaly". If a million dollars disappears in the budget of some department or other, that is also an "anomaly". And the front pages of the newspapers are full of "anomalies". However there is a growing impatience with the failure of a succession of Philippines governments to tackle seriously the problem of raising levels of living for the mass of the people.

The Philippines has its quota of millionaires. It has its concentration of income and wealth in a few hands. But this does not lead, as it has in the past in some of the more advanced countries, to a high rate of savings and investment. On the contrary, the ratio of developmental investment to national income in the Philippines is one of the lowest.

When we come to Indonesia, there is a morass of problems. At the time of independence, as I suggested

already, Indonesian per capita income was almost certainly below what it was when the Dutch arrived in 1600. The level of literacy was certainly lower. Independence was followed by nearly ten years of debating society approach to policy issues, during which very little was done in the way of developmental investment.

Then came the Sukarno regime which, from the economic point of view, was perhaps more serious than the war in Vietnam, in terms of capital consumption. By the time Sukarno was replaced, the manufacturing sector was operating at about 15 per cent of capacity, perhaps half of the infrastructure—the roads, the railroads, power plants and so on—had been lost through simple lack of maintenance. The story of economic mismanagement in the Sukarno regime has, in my knowledge, no rivals. So, in Indonesia as well as Indo China, one really has to think in terms of reconstruction, not just in terms of development. It will take some time to get Indonesia back where it was in 1959, at the time of the Sukarno take-over.

There is now in Indonesia a competent and conscientious regime, with the power of the army being used to give the technocrats the opportunity to run the country, in effect. I am perhaps slightly biased, since nearly all the young economists who are now formulating and implementing economic policy in Indonesia have been students of mine at one time or another. A good many of them were young colleagues in the National Planning Bureau, when I was in Indonesia as financial adviser to the government.

The Chairman: It was a somewhat understandable bias.

Dr. Higgins: It is a very thin layer. They are very good, bright, and competent, PhD's from Harvard, M.I.T., Berkeley, McGill. It is a very thin layer. It is an enormous country which, superimposed on the map of Canada, would extend several hundred miles out into the Pacific and several hundred miles out into the Atlantic, and from the American border to Mid-Texas. It is a very big country, consisting of thousands of islands which makes it a difficult country to administer.

Burma is perhaps unique among socialist countries, or self-styled socialist countries, in that it is worse than stagnant. Per capita income in Burma is declining. Levels of education have certainly declined. In 1850 Burma probably had the highest level of literacy in the world. It had almost universal literacy at a time when that was not true of most European countries. But illiteracy has now reached about 90 per cent. So Burma is a hornet's nest of problems.

Thailand is doing relatively well. It is a bit like the Philippines in the sense that it is a dynamic private enterprise economy, but one with a great deal of concentration of income and wealth and, in this case, also of political power. Just how stable the Thai regime is is also a question.

Now even Malaysia, as much the most highly developed of the southeast Asian countries, is facing very serious problems. In some ways they are all the more serious because they are not fully recognized by the

Malaysians themselves. I am currently engaged in a very large scale regional planning project in Malaysia which is financed by CIDA. This is a $\$3\frac{1}{2}$ million planning project with about 50 professional people on the team.

Malaysia has done very well on the basis of a certain pattern of development: concentrating on rubber and oil-palm and tin. The trouble is that none of these commodities any longer provides the basis for continuing growth sufficient to guarantee a continuing rise in per capita income of 2 or 3 per cent a year, let us say. Malaysia produces half the world's rubber supply. Every time they improve yields per acre, the world price of rubber goes down so that the increase in productivity has just offset the decline in prices, leaving earnings through export of rubber about the same. Oil palm is not quite at that point yet but seems to be heading in that direction, since most of the new planting is of oil palm and much rubber is being torn up to be replaced by oil palm. In other words, it is no longer an expanding or leading sector which could guarantee the continued growth of the economy as a whole. The same is true of tin. Tin is being replaced in world markets by other metals.

Consequently, Malaysia needs very badly a sharp change in the structure of its economy in the direction of greater emphasis on manufacturing. The amount of manufacturing either in terms of output or employment is abnormally small. Given the size of the population and the over-all level of income, it has been a kind of delayed industrialization because they did so well in the past on the basis of this rather narrowly-based rubber-oilpalmtin economy which served the colonial powers particularly well but also served the native, indigenous population quite well.

Added to this current stagnation, and the prospect of continuing stagnation with all the personal frustrations that stagnation implies, is the extremely serious problem of unemployment, particularly among young people. The World Bank estimates that half the high school leaders are unemployed. Large numbers of educated unemployed are, of course, almost a recipe for some kind of disturbance.

There is also the very bitter struggle between the Malays and the non-Malays, particularly the Chinese. For someone who lives in Quebec there are many aspects of the Malaysian scene which are familiar. The Chinese are in something of the position of the anglophones in Quebec, in that as a minority group they own the banks, the industries and the large commercial establishments, whereas the Malays are on the land and are relatively poor. The government, in its new economic policy, states that the number one objective of the development policy is to reduce the gap between the Malays and non-Malays. In fact, however, they are pursuing a policy which is going to do the opposite. That is, they are continuing to put Malays on the land where productivity and incomes are necessarily low in comparison to the high productivity associated with occupations in the cities, which are still held by Chinese.

The combination of stagnation, high and growing unemployment, particularly among young people, and

this friction between the ethnic groups is again a recipe for some kind of explosion. As I say, every country in southeast Asia is facing peculiar problems. In many ways southeast Asia is basically the most troubled area in the world.

All this leads me to conclude that in dealing with reconstruction and development in southeast Asia a special approach and a special institutional framework will be necessary. To do the job—that is, to ensure that all of these countries will get on the road to sustained economic growth and stay there—will require something like a total of \$1 billion of foreign aid per year to all those countries, of which perhaps half might go to Indonesia since, in fact, Indonesia comprises about half of southeast Asia in terms either of total population or total income.

But the governments of these countries, taken as a group, are simply not capable of administering competently and honestly a foreign aid program of that magnitude. I mentioned corruption in the Philippines. But corruption is a common feature of life in most of those countries. In Indonesia there was virtually no corruption until about 1956 or 1957. But under the Sukarno regime, particularly, as more and more of the economy was taken over by the army and turned over to various colonels to administer, the corruption became so much a way of life that now it is hardly regarded as such any more. On the other hand, among young people there is a good deal of concern about continuing corruption in Indonesia.

Given this combination of lack of sufficient technical and managerial skills to use effectively the amount of economic assistance that is in fact necessary to assure continuing growth, and given this tradition of corruption, it is my view that Asia is mounted, we shall need something with the institutional framework of the Marshall Plan, particularly something like O.E.E.C., an organization in which donors and recipients are joined, with the control of the aid funds remaining in the hands of the organization rather than being turned over holus-bolus to the recipient governments. This, of course, means some sacrifice of sovereignty on the part of the recipients, but it also means some sacrifice of sovereignty on the part of the donors. On the side of the donors an alternative would be to have the overall planning and programming done through the international organization, and then have each country pick up particular programs for bilateral financing which would affect the decision-making and control of the donors.

I see Canada playing a major role in this whole affair. The advantages in francophone Asia are obvious, and I personally would like to see in francophone Asia, once that area is opened for large-scale development projects a kind of big push on the part of Canadian aid programs such as we have mounted in the last few years in francophone Africa. The same arguments apply, but even more strongly, I think, because throughout south-east Asia, and particularly in francophone Asia, because of the war the United States is hamstrung.

The United States can provide money and wants to provide money. I might say here that I have done four advisory missions for the United States Agency for International Development and I know that the Americans are

concerned with aid policy and I am sure that the United States will itself want to continue with its low-profile policy, as they say, in south-east Asia, and particularly in Vietnam, Laos and Cambodia because of the associations in those countries with the war in Vietnam. The United States, in other words, is not in a position to exercise leadership in the development of new approaches and new institutions because the moment anything of that kind is labelled "American" it is foredoomed to failure, and the Americans know that very well. I might add that "low profile" is their term. Perhaps I am saying things that you already know very well, but this is a very important element of the whole picture. It is a wish on the part of the United States to be as invisible as possible while at the same time doing as much as possible to assist in the reconstruction and development of southeast Asia.

I see Canada playing the reverse role—not spending a great deal of money—because we do not have that kind of money for foreign aid programs or to mount a really major capital assistance effort in south-east Asia on top of what we are doing elsewhere, but I can see Canada playing a major role within the United Nations and within the O.E.C.D. in the organization and leadership of a special program for reconstruction and development in south-east Asia.

Our advantages are well known. One of the main ones, I suppose, is that we are not well-known; nobody dislikes us because nobody knows us very well. It is unfortunate in a way that where we are best known, namely in the Caribbean, that is the one part of the world where you have an anti-Canadianism which vaguely resembles the anti-Americanism which you find practically everywhere in the world. But in south-east Asia, where the countries are much bigger and where there has not been until now a Canadian presence, we can build on the general acceptability of Canadian assistance and Canadian leadership a Canadian role in the reconstruction and development of south-east Asia.

I think I will stop there, Mr. Chairman.

The Chairman: Thank you very much, Doctor Higgins. It is very interesting to have a witness come forward with a suggestion and a scheme such as you have brought forward this morning—some type of a 'Marshall Plan'—and also indicating very clearly that there is a role and a very specific role for Canada to play in this particular field. I am sure the questions will be along this line and will relate to the type of institution which you have in mind.

Senator Cameron: Mr. Chairman, I agree with you that we are fortunate in having Doctor Higgins here today and I am glad that he underlined the importance of south-east Asia to Canada. I think in the last ten years Canadians have suddenly awakened to the fact that we are a Pacific power, and they think of it mainly in terms of the impact of Japan, but in terms of potential the millions of people of the tremendous area and of the countries you are discussing, Indonesia and so on, are almost frightening in their implications for us, a small country of 21 million people. Now you have suggested

that a Marshall Plan for south-east Asia might be developed, and I think this might be a very good approach, but you have also suggested that it would require about \$1 billion a year in foreign aid. My first question then is this; how would you see the Marshall Plan constituted in terms of the countries participating and in the allocation of funds?

Dr. Higgins: Well, my preference would be for an organization-and I even have a name for it; I call it AIDSEA, meaning Agency for International Development of South-East Asia-it also happens to sound like an Indonesian word or Malay word. But personally I would like to see it within the Economic Commission for Asia and the Far East, and I note with interest that the foreign Policy Review has indicated that it might be well for Canada to seek admission to or membership in the Economic Commission for Asia and the Far East and certainly I would very much like to see Canada in ECAFE. I have with me an issue of Asia magazine with an article of mine in it which does set forth the proposed structure in some detail. But I would see it as being under the Secretary General of the Economic Commission for Asia and the Far East, with its own director and co-director, one for south-east Asia and one representative of the donors, and a similar structure in each country. That is to say you would have a director for Indonesia who would be a representative of the donors and a co-director for Indonesia and similarly a director for Malaysia and a co-director. So you would have a parallel structure right through from top to bottom and even out in the field in the supervision of particular projects. I say that because to spend that amount of money effectively in south-east Asia there would need to be technical supervision of large-scale projects in which the agency would participate, otherwise a lot of money would be misspent, even apart for the corruption issue. Perhaps I have talked too much about corruption, but the sheer lack of technical, scientific, managerial skills at all levels is a much more serious problem. On the donor side, the present membership of ECAFE is what I had in mind, plus Canada.

Senator Cameron: Would you recap that, just to refresh our memories?

Dr. Higgins: The United States, the United Kingdom, France, West Germany, Holland—I think Spain is also in it. These are the major donor countries anywhere.

Senator Carter: Would you have Japan in there?

Dr. Higgins: Certainly, Japan is a member of ECAFE and plays a leading role in ECAFE. Russia is in, and to me this is very important. It would be very important to have the Soviet bloc represented in this Marshall Plan organization I am discussing, if only to give it the appearance of neutrality, on political grounds.

I can tell you that I know of cases in South-East Asian countries where the Russian ambassador and the American ambassador have been meeting regularly to co-ordinate their foreign aid programs, and I regard this as a very good thing.

Japan would have to be in. Japan is eager to provide more aid in South-East Asia. There is of course a problem there, that the South-East Asians have not forgotten the war, and they know that in Japanese minds aid is a prelude to trade. So there is still a certain attitude of caution towards Japan on the part of the other Asian countries, and particularly the South-East Asian countries where the Japanese armed forces were.

Economic integration of South-East Asia was probably delayed for some years by the initial Japanese sponsorship of the idea. Now ECAFE is coming back to the idea of economic integration, and it is being very seriously discussed. I expect something concrete to emerge in the way of co-ordinated planning, possibly agreed specialization, and possibly even some kind of common market.

It could be done in other ways. It could be an autonomous institution. It could perhaps be done through the OECD, but the OECD does not have the Soviet bloc and to my mind this would be a serious handicap, an obstacle to the success of the venture. So the ECAFE has excellent relations with its member governments. I know ECAFE well, and it has made less of a splash than the Economic Commission for Latin America, let us say, because it has never had the kind of dynamic leadership given to ECLA by a man like Paul Prebisch, who made a lot of noise, who had strong views on policy, who had disciples and who therefore also had enemies. But ECAFE has proceeded much more slowly and quietly in building up its relations with member governments, and these are now very good. I think it is fair to say that ECAFE really has the confidence of its members. Therefore it is there and it has been going for 20 years, so why not use it? This would be my feeling.

Senator Cameron: Do you feel that if Canada joins ECAFE the other large and powerful contributors would be agreeable to Canada taking a major initiative there? Secondly, if they are, do you think we have the resources of personnel at the present time to contribute to making an organization like that effective?

Dr. Higgins: I am quite sure that the other major bilateral donors would welcome Canadian leadership. Certainly, the United States would. I do not think the Russians would mind; they would want a role too, of course. In this case, in contrast to Francophone Africa, I would say, I do not think we would run into opposition from the French. I think the French have more or less given up on Indo-China. This is how I read it anyhow. They certainly have not given up on Francophone Africa. L'Agence de la Francophonie in Africa is a tangible phenomenon in our operations there. I have been acting for the last two or three years as a special adviser to CIDA on Francophone Africa, so I have some first-hand acquaintance with the continuing French presence in Francophone Africa. Of course, I cannot guarantee it, but my guess is that we would not run into this kind of concern on the part of the French in South-East Asia because they are hamstrung too. They lost Indo-China in a war not so long ago, and all the mess came out of that, so they are very limited.

The second question you raised, is, to my mind, the most serious problem, and that is personnel. The world always seems to be full of economists, for example, until you need a particular man with particular qualifications to do a particular job, and then it always seems hard to find such a man. In our centre for Research and Economic Development in the University of Montreal, we are currently trying to assemble a team, at the request of the United Nations, to take over the task of preparing and implementing development plans in Mauritania, for example, and it is hard to find the right people.

I think the answer is to be found in a much higher degree of decentralization of our foreign aid effort. The ratio of CIDA officials in Ottawa to those in the field is absurd. No other major donor country operates that way. I had some conversations a year or so ago with the Swedish CIDA on this very point, and they say that they have found that in any country of concentration, or any country of major effort, on their part they need at least a dozen administrative officials, not technical assistant experts but people operating and administering the aid program. We do not have that many CIDA officials in any country, but we have mostly one man attached to the embassy.

If we operated more in the way that AID does in the United States or the Swedish CIDA, and had fewer people sitting here in Ottawa and had more of the same people in field offices, the personnel problem involved in such an undertaking would be alleviated—although it would still be there.

Senator Cameron: Recognizing the size of the operation which is likely to evolve in the next 10 or 15 years, would it be your view that Canada should set aside a portion of her aid program for the training of people to serve in those countries? And, if so, what kind of training would be the most effective?

You say that the world is full of economists. This is true. We can probably get all the economists we want, but what about other technical people? What are the priorities in terms of personnel to go to these countries? I am thinking not only of Indonesia but of the other countries in southeast Asia.

Dr. Higgins: In terms of formal, professional training required we are probably already doing a reasonably good job. By that I mean that we are training developing economists, planners, industrial economists, agronomists, hydrologists, geologists, mineralogists, and so on. Whether the proportions are right in terms of the relevant needs of those types of skills, I do not know. We are probably not training enough sociologists, anthropologists and political scientists with special interest in the problems of development, and we are not doing a good job of training or even briefing those professionals that we send into the field. If we send into a country like Indonesia an agronomist or industrial economist with solid training and good Canadian experience, but knowing nothing about the social, industrial or political framework of the country in which they are to operate we are likely to make a good many serious mistakes and perhaps destroy the value of the mission.

Senator Cameron: That is the kind of training I had in mind. I am not thinking of those who have a master's degree or a Ph.D. How do we make such people effective in practical terms? You have put your finger on what the need is, but how do we train such people? Do we set up what the Chinese in their pidgin English call "a mickey-lern" to work with people in the field as part of their training program?

Dr. Higgins: I think that is essential. As an adviser I feel that all high-level CIDA officials should, as part of their job, spend a certain amount of their time in developing countries. In CIDA we have hardly anyone with long and deep experience of developing countries. I hope my colleagues will not consider me disloyal in saying this, but it is blatantly true. However, they are beginning to travel more than they did, but on short visits. But that is not the same thing as going to a country and living and working there for a year or two so that there really is immersion in the life of the country.

There are, of course, a small proportion of CIDA officials who are field officers. Perhaps there are a dozen altogether. Universities have a role to play here. This is something which we have talked about quite often. Universities such as Montreal, McGill and Sir George Williams could muster expertise in almost any part of the world, in the sense of those who have not only studied these countries but can offer a certain amount of experience. Crash courses, from six weeks to three months, on the major problems of those countries to which experts were being sent would help considerably. This is already being done under the American Aid Program. As we move towards a field operation, as I hope we will, we shall need this kind of apparatus for briefing people sent to the field.

Senator Carter: We now have a surplus of overeducated people, Ph.D.s, economists and so on, that we do not know what to do with. Is this a source that could be utilized in some sort of program, to get such people into the field?

Dr. Higgins: I would think so. Some countries which have obligatory military service accept a period of work in under-developed countries as an alternative to military service. However, if we were to use that device we would first have to introduce military service. If we built up a real field organization we would have opportunities for using our excess supply of expertise.

I was told the other day that there were 500 unemployed Indian engineers in Toronto alone. An Indian already knows something about an underdeveloped country and has had good technical training. Why not send him out? Engineers are certainly among those most urgently needed. In such fields as industrial and agricultural economics there is a real scarcity of highly qualified personnel. Development is very much a matter of this interaction between agricultural and industrial improvement, and there is great need in these fields.

Senator Fergusson: I should like to ask Dr. Higgins a question about education. Some of the things he has said have been quite startling. I should like to know if any effort is being made to train people in under-developed

countries in order that they may become experts in certain fields and able to occupy those positions that need to be filled?

Dr. Higgins: Oh, yes. I would say that the major developmental effort in southeast Asia, and indeed in developing countries as a whole, has been in the field of education. It is true that all members of the United Nations are formally committeed to providing universal primary school within X number of years. It started by being 1970 and some countries got pushed back a year. In Indonesia at the time of the transfer of sovereignty there was about 90 per cent illiteracy. They now claim about 90 per cent literacy for people of school age. In other words, the children are attending school, although statistically literacy simply means that a child has spent some time in a chair in a classroom.

They are expending very rapidly the number of training universities and the number of people who are being trained in universities overseas. The big gap is at the secondary school level, particularly in technical and vocational training. This is where much of the need exists in terms of skills. An expansion of our fellowship program would be one of the most effective forms of assistance that we could provide. There again we have some advantages compared with those of the United States. Anti-Americanism is a real phenomenon and for many southeast Asians Canada is more attractive than the United States. Of course, this is particularly true of francophone Asia. We have at the University of Montreal and at Laval substantial numbers of Vietnamese students, particularly, but we could have more.

The Chairman: Do you still regard Vietnam as a francophone country?

Dr. Higgins: Well, they speak French; the elite speak French.

Senator Fergusson: What proportion of the southeast Asian countries are francophone?

Dr. Higgins: There are only Vietnam, Cambodia and Laos; three of the seven or eight.

Senator Cameron: That is most of the population in the elite circles anyway in those three countries?

Dr. Higgins: Yes, are French speaking. I dare say, in reply to your question, that with so many years of American presence the knowledge of English is also increasing among the South Veitnamese. However we have quite a number of South Vietnamese working on MA's or PhD's who by and large are not at home in English.

Senator Cameron: You referred to the anti-Americanism, which we recognize. In your experience has any of this rubbed off on Canada, as we are a close neighbour and some people even accuse us of being one of the major armament suppliers in southeast Asia, through the Americans? Do you find our image being tarnished?

Dr. Higgins: There are some sophisticates, particularly sophisticates with a Marxist bent, of which there are many among the leadership in southeast Asia, who tend

to feel that Canada is a vassal or a tool of the United States. However, I believe that most southeast Asians make a fairly sharp distinction.

I certainly found in my own case that being Canadian rather than American made a great deal of difference in my relations with government officials and with people. This is particularly true when carrying out missions for the United States. The moment I had the opportunity to say politely "Well, you know, I am not an American; I am a Canadian," the atmosphere always changed. I believe this is one reason why the Americans were glad to use me in some circumstances, because I could establish as a Canadian a rapport with government officials which is more difficult for Americans.

Senator Cameron: This assessment is very important in terms of Canada playing a larger role under a Marshall plan, for example. We spent approximately four cents per capita in Indonesia last year, compared to 31 cents in Malaysia and \$5.73 or thereabouts in the Caribbean. Obviously, if we are to participate in an aid program in relation to its importance under a Marshall plan, this would have to be greatly extended. This suggests one of two courses: can we as a Canadian Government greatly increase our contribution, specifically for this area; or, if we do not do that, then must we cut down somewhere else, for example in the Caribbean?

The alternative would be to agree that the suggested form of Marshall plan is the concept we need. Would not one of the first priorities under that program be to train a very large corps of people from all the participating countries to work in the field? This would help our budgetary position and involve all participating countries.

Dr. Higgins: Yes, I entirely agree. I think the Canadian contribution, apart from leadership in initiating the program and some contribution to the personnel of the administering agency itself, would be rather in the technical systems and in training, some of which can be carried out here, than in massive capital assistance.

On the other hand, I am on record within CIDA as saying that in my view we could very well reduce the amount of our aid to India and Pakistan, apart from the special problems of relief in Pakistan at the moment. We are still spending nearly half of our aid budget in terms of long-run developmental assistance of these countries. We are still spending close to half of our aid budget. This is in addition to aid for Ceylon.

I do not really see much justification for continuing this policy. It reflects the fact that we entered the foreign aid program through the Colombo Plan. Our associations with the larger ex-British colonies were close and we felt safe and relatively at home with them. However, these countries receive massive aid from the United States, the USSR and elsewhere. Our contribution, which is big to us, is not big in terms of the total aid package that they receive. Therefore, if we were to take even half of the amount we now spend in India and Pakistan and spend it in Indonesia or in Indochina, in those contexts it would be a significant entribution. This, if we cannot expand

the overall budget, is where I would look for a redistribution of the existing budget.

Senator Robichaud: Mr. Chairman, Dr. Higgins stated that there appears to be a slow but growing flow of Canadian investment in Indonesia. Could he tell us to what extent Canadians are investing in Indonesia and in what industry or particular field?

Dr. Higgins: To my knowledge the significant investments thus far are all in mining, nickel mining particularly. It is exploration at this stage, with the possibility of a quite heavy investment in mineral exploitation. The same is true of American investment, by the way. There is some concern regarding the pattern of foreign private investment in Indonesia.

I am at the moment Chairman of the Indonesia Panel. and member of the Executive Committee of the Southeast Asia Development Advisory Group, which is an organization financed by AID and administered through the Asian Society to bring to bear expertise from outside the government on American foreign aid policy in that part of the world. In recent meetings of this panel, particularly on the side of the government officials I would say, the AID officials and state department officials themselves, there has been an expression of concern over the fact that the pattern of private foreign investment is neo-colonial; it is nearly all going into natural resource exploitation, in the same manner as the Dutch and other foreign investments did in the past. There is just a slight feeling of discomfort because it is feared that if this pattern continues and the Indonesians suddenly wake up to the fact that their rich, natural resources, quote, unquote, are all in foreign hands, there could be some reaction. This would be much the same reaction and perhaps no more harmful than that of Canadians at the present time to the increasing role of American investment.

I find it hard to imagine a volume of Canadian private investment in Indonesia that would make Canada a particular target for criticism of foreign private investment. However, when lumped together with the United States and other foreigners, this could become a problem.

I would like to see more private investment, including Canadian investment of different sorts. There is, for example, an electronic plant in Djakarta. I have forgotten the name of the company, but it is one of the major American companies. There is one American in the plant. The manager told me that after six months operation they had already reached 90 per cent of American productivity standards, and he had no doubt whatsoever that at the end of the year productivity would be just as high in the Djakarta plant as in any other plant in the United States. Since the wage levels are perhaps 10 per cent of what they are in the United States, this is a profitable undertaking.

I think more of this kind of operation, which provides large scale employment for Indonesians, and does not involve the chance of foreign ownership of natural resources, which is always a sensitive thing, would do a great deal to cushion any possible reaction to the increasing role of foreign enterprises in resource exploitation. Mind you, there is very little choice at the moment,

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because the Indonesians have neither the capital nor the skills, particularly technical and managerial skills, to exploit their own mineral resources.

Senator Robichaud: Have Canadians been showing an interest in investing in Indonesia?

Dr. Higgins: I think Canadian interest is very recent. When I was in Indonesia in the fifties I cannot recall there being any Canadian enterprise.

Senator Grosart: How significant is U.S.S.R. international aid in Southeast Asia? I have seen a figure indicating that more than 90 per cent of total world aid came from OECD donor countries.

Dr. Higgins: The Russian policy has been to concentrate their aid narrowly in a few countries. I am not sure I could give a precise figure of Russian assistance in Southeast Asia at the present time, but it has been significant, particularly in terms of the high degree of flexibility the Russians have shown in their foreign aid policy. I remember when Mr. Moekarto was Indonesian ambassador to Washington he remarked one day that because of the much greater effectiveness of the Russian foreign aid program it was very difficult for people like him, who favoured closer ties between Indonesia and the West. He said, "When we ask the United States for something they send out a survey mission; they take three or four months to study the project; they go back to Washington and study it for another year there; and then they tell us no, and we don't even see the report."

The Chairman: It sounds very Canadian.

Dr. Higgins: It sounds very familiar. He said, however, that when the Russians were asked for 500 tractors they would be shipped in a week; when they wanted coastal shipping, the ships were on the way before being asked for, because the Russians anticipated the Indonesians would need them as the Dutch had taken their coastal shipping out and put it in Singapore.

I am not sure that this is an efficient way to run a foreign aid program. I dare say the Russians make some mistakes. In fact, I recall the Sultan of Jodjakarta who became civil governor of his own kingdom in effect after the revolution, because he was one of the sultans who fought with the revolution against the Dutch instead of fighting against the revolution with the Dutch, as many sultans did, because they could see their feudal position would disappear with the Dutch. He was quite an economic developer and went all over the world getting aid packages, including a sugar mill from East Germany. There were long delays in getting the mill going; the sugar cane crop was on the ground. They finally got the mill going; they ran it one day and it broke down. It turned out that the East Germans had sent a beet sugar mill instead of a cane sugar mill. For that reason a whole year's cane crop was lost; it just rotted on the ground.

There are, therefore, disadvantages in this kind of mail order approach to foreign aid and just saying, "Yes, sir, we will sent it at once", whenever you get a request. On the other hand, it does make friends for the Russians because of their promptness in meeting aid requests. I think it is more this kind of aspect of the Russian aid

program that makes it effective rather than the overall amount of the aid.

Senator Grosart: Have you observed any difference in the area of political self-interest between Russian aid and, say, OECD aid?

Dr. Higgins: I have not, no. I have frequently worked with Russians or people from other Soviet bloc countries on advisory missions, or in planning teams, and have had associations with a good many other Russian experts in particular fields. My impression is that they do a good honest technical job and do not engage in ideological or political propaganda. In fact, I have always had the impression that they have been told specifically not to do that. I think the Russians feel they have real experts in infiltration and propaganda, and they do not want technical assistance experts who are amateurs at that sort of thing being involved. Also in the case of capital assistance projects, I cannot see that the criteria for selection are all that much different, except that the Russians seem more inclined to give the recipients what they asked for without long extensive study of the individual projects.

Senator Grosart: Is there a difference between the percentage of Russian international aid that is multilateral as against the bilateral element?

Dr. Higgins: Oh yes. The Russian multilateral contribution is very small, and it is made in roubles. I think this is still true. If it is important to you to have an absolutely accurate answer to that question you should perhaps check it, but so far as I know the Russian contribution is still made in roubles, so they have to spend the roubles in Russia. There are complaints about that aspect of Russian capital assistance, that it is even more narrowly tied to purchases within Russia than is American aid, let us say, or ours.

Senator Grosart: I missed the first few minutes, due to another meeting, but since I have been here you have not mentioned mainland China in this context. Is mainland China a factor in international aid in southeast Asia?

Dr. Higgins: I did not mention mainland China because it is not one of my countries, so to speak. I have no special knowledge of China. They have a foreign aid program, which is curious in a way, considering that the Chinese per capita income is lower than in almost any of the southeast Asian countries, except Laos and Cambodia. But they do provide modest amounts of foreign aid and capital assistance. I cannot recall encountering Chinese technical assistance. I could not swear that there is none, but it is mainly a matter of particular types of capital equipment on a fairly modest scale.

Senator Grosart: And yet the Chinese presence is very strong in other ways in Indonesia and Malaysia?

Dr. Higgins: Yes. In the case of Malaysia, the Chinese population is about 30 per cent of the total. It is more, it is about one-third. As I said earlier, their role in commerce, industry and finance, is much more, in proportion to their numbers. In Indonesia the numbers are much smaller. There were about 2 million Chinese, before the mass murders a couple of years ago. Also, they are very

largely concentrated in commerce and finance. Most of the village money lenders are Chinese, for example. That is true throughout shoutheast Asia. The overseas Chinese in southeast Asia are sometimes referred to as the Jews of southeast Asia—which is perhaps not a very polite expression, but it is descriptive, because their role is not unlike the role that Jewish bankers played in the development of Europe in the 17th and 18th centuries. They are the bankers, particularly at the village level. No doubt, in those mass murders in Indonesia, a good many of the Chinese were killed because they were money lenders and this was one simple way of liquidating debts—cut the man's head off.

I think it is fair to say that there is a feeling of affiliation to mainland China on the part of the overseas Chinese in southeast Asia. Even on the part of people born in southeast Asian countries, the respect for the Chinese culture and history is there, and there is a feeling of affiliation. This also runs across occupational lines and political party lines. Even successful businessmen, who you would expect to be anti-communist, still feel a certain loyalty towards and respect for China.

In fact, there was a period in Indonesia when we were trying to prevent inflation and when money was pretty tight, when it was said that the only person who could really establish a new private enterprise in Indonesia was a Chinese communist, because he could get money for a new enterprise through the Chinese communist party. This was foreign aid of a type, but it was aid through political channels and to private individuals.

Yes, there is a Chinese presence. Now because of the association of the Indonesian Chinese with communism, the Chinese are being very quiet. Many of them changed their names to Indonesian names. Many of them have left. Many of them were killed. I have heard estimates as high as a million people, who were killed in that blood bath a couple of years ago, but certainly hundreds of thousands. Others have simply moved. So the Chinese presence in Indonesia is substantially reduced.

Senator Cameron: Have they diplomatic relations now? They broke them, I think, at that time.

Dr. Higgins: I do not think so. I do not think they have restored the diplomatic relations yet.

Senator Grosart: Is there any particular difference between the apparent Russian and mainland Chinese emphasis on investment in political ideology rather than in money, capital and the transfer of physical resources? There seem to be two different patterns in southeast Asia.

Dr. Higgins: As between the Russian and the Chinese?

Senator Grosart: No, as between the Russians and the Chinese on the one hand, and the OECD countries on the other? You mentioned earlier, for example, the Russian reliance on the non-amateurs. What I am really asking you is: Are we going about it the wrong way?

Dr. Higgins: Are we going about it the wrong way? I strongly believe that we need more effective propaganda devices and more effective propaganda machinery. We are very bad at selling our kind of socio-political system.

We started off—by "we" I mean not just Canada but the OECD countries, if you like—with two strikes against us, because of the identification of capitalism or private enterprise with colonial regimes. As I said before, there is an element of Marxism in the thinking of almost all political leaders in southeast Asia, certainly in Indonesia. Even those who are more outspokenly pro western and pro private enterprise. But it is there, this basic suspicion of foreign enterprise and of the western democratic system.

So we really need to be more effective in selling our regime than the Russians do, because there is a certain initial inclination, because of the colonial history, to prefer the socialist system—without knowing too well what that is, very often.

The communists are good propagandists, they do an effective job of selling their system. And we do not. I think this is partly because we do not know what our system is any more. To call it a capitalist system would be a technical error, to begin with, and it would be inaccurate. It is hard to make a managed economy, for example, sound glamorous. I do not know, this is something which I worried about a good deal. I believe that it would be worth preserving some slice of foreign aid budgets for public relations in these countries.

Senator Grosart: A final question, Mr. Chairman. Do you envisage a foreseeable time level when in southeast Asia the international aid will start to narrow—rather than continue to be a factor in widening—the gap between the developed and the developing nations?

Dr. Higgins: There have been some rather careful studies of this question.

Senator Grosart: Perhaps I may put it this way. What would be the time pay-out on your billion dollars?

Dr. Higgins: To be realistic, we would have to think in terms of 10 to 20 years, probably. Whether within that period, these countries might become independent of foreign aid, would depend a great deal on the degree of success in the first ten years.

What is needed in order to become independent of foreign aid is not only some period of growth, some period of development, of rising incomes, but also quite drastic changes inhabits with regard to saving, and a willingness to pay taxes. The ratio of savings plus taxes to national income in most of these countries is very low. If these countries are to finance their own development, even after let us say ten years of successful growth, they will have to have this willingness. In other words, their attitude will have to change.

If they did change their attitude, I would think that in ten years—ten years of really large scale assistance they might become independent.

Senator Grosart: Could you relate that to the Taiwan experience?

Dr. Higgins: Mind you, Taiwan has been very fortunate. Taiwan was fortunate in its colonial history as well.

They did well under the Japanese. The Japanese made Taiwan a part of the Japanese economy, in effect, so that the rapid industrialization that took place in Japan during the last half of the 19th century spilled over into Taiwan. This plus the very effective large scale American assistance of the post-war period put Taiwan really on the road. It is not easy to reproduce that fortunate colonial experience now, particularly in Indonesia where colonial experience was much less fortunate. But, yes, Taiwan is one of the success stories. It does show that massive infusions, if they are also effectively and efficiently handled—which is one of the things I keep stressing—can make a country independent in a relative-ly short period.

Of course when it comes to resources Indonesia is far better off than Taiwan ever was.

Senator Grosart: Therefore, more exploitable.

Dr. Higgins: That is right.

Senator Inman: You mentioned earlier, Dr. Higgins, that the average annual income of the Malaysian was \$400 a year. How does that compare with our money in terms of buying power?

Dr. Higgins: That is a good question for a PhD oral exam. Let us say you have a family income of \$2,000—I would think that it would compare with the family income of \$5,000 or \$6,000 in Canada in terms of real levels of living.

The Malays are really pretty well off. There are millions of very poor people in Malaysia, but Malaysia is just on the borderline between an underdeveloped country and the advanced countries. They are about where Japan was at the beginning of World War II, let us say. But the worrisome thing is that the structure of the economy, as it is, is not one that promises continued growth. And a country which reaches a certain level of welfare, where you can sort of see affluence just over the top of the next hill, and then goes down, is a country which is prone to trouble. This is what happened in Cuba, for example. In 1927 Cuba was the richest country in Latin America. It was just about where Malaysia is now, at about \$400 a year. But it was based on sugar—a no-hoper in terms of continued growth.

The same thing happened in Argentina. They had a per capita income of about \$500 a year and then bogged down for 20 years. That situation is particularly frustrating. It is more explosive than the case of a country that has never developed at all, where you have a simple peasant kind of society with its own built-in social security system and so on.

I am glad Malaysia is one of our countries of major interest, because I think it is a country which needs help if it is going to avoid serious trouble.

Senator Inman: Last summer I had some conversation with one of the Malaysian delegates. He told me that in their educational system the children go to school six days a week and that on one day they learn English.

Dr. Higgins: That could well be true. It is slightly misleading, however, because there are many schools in which English is the language of instruction. There is a kind of movement afoot to increase the proportion of schools in which Malay is the language of instruction and English is taught as a foreign language; but, obviously, any educated Malay speaks English.

Senator Nichol: Dr. Higgins, part of the reason this committee is operating as it is is that Canada's traditional stance has been to face toward Europe while keeping its back, so to speak, toward the Pacific countries. Thinking of the over-all Canadian international apparatus as involving trade, communications, diplomatic facilities and so on, how would you compare our over-all apparatus in southeast Asia with our over-all apparatus in, for example, Africa and some of the smaller countries of Europe and the Middle East?

Dr. Higgins: It is necessary to break this down a bit. In Malaysia, after all, we have a high commissioner with a relatively substantial office. Our representation in Malaysia is certainly at a higher level and larger scale than in some of the smaller European countries. Until not long ago we had only a trade commissioner in Indonesia. So a diplomatic mission is a fairly new phenomenon there. It has been a fairly small office—a man and a boy sort of affair; but it should be expanded, in my view.

On the other hand, our representation in Africa or in Latin America, especially the smaller Latin American countries, also leaves much to be desired. I am particularly concerned with Algeria. It is not quite on the Pacific, but it is a case in point. We handle Algeria from Berne and our ambassador there is going crazy because he would much rather be in Algeria where the action is. This is a very important country in the entire African scene and we are beginning to build up a fairly important aid program there.

Senator Nichol: If I may pursue that for a moment, Mr. Chairman. I am under the impression, particularly from talking to people on the west coast who are interested in improving trade and doing more business in south-east Asia, that our facilities there are generally not as sophisticated as they are in these other countries. I am not saying that that is correct, but I would like to know what you think.

Dr. Higgins: I think that it is quite clear that our representation in terms of trade commissioners or diplomatic missions is hopelessly inadequate in south-east Asia with the possible exception of Malaysia, which, of course, happens to be a Commonwealth country and where we have a High Commissioner.

The Chairman: Who also happens to be first-rate.

Dr. Higgins: Yes, and who happens to have a keen interest in the Colombo Plan and in economic development. So this is quite a different kettle of fish, so to speak.

Senator Nichol: Thank you.

The Chairman: Dr. Higgins, it is not very often that we have a witness who can be described, as I described your biography in my opening remarks, as being formidable. I think your performance and your answering of questions

has also been formidable. We are delighted to have had you here this morning for this very interesting and important meeting.

The committee adjourned.

APPENDIX "M"

INDONESIA

1. General Facts

- (a) Area—735,380 square miles
- (b) Population—118 million (1969 estimate) The population grew at a rate of 2.4 per cent per annum during the 1960's.)

(c)	Economic Data	(1969 estimat	es)
	Gross Domestic Product	\$9.5 billi	on
	Per capita income	\$80\$	85
	Exports	\$722 milli	on
	Imports	\$969 milli	on
	Trade balance	\$334	

2. Canada—Indonesia Relations

(a) Political

Indonesia, with the largest land mass and population in Southeast Asia, extensive undeveloped resources and a strategic location, is a key factor in the establishment of stability in the region. The present government headed by General Suharto, which gradually took power from President Sukarno after an attempted Communist coup in 1965, has abandoned the flamboyant and aggressive foreign policy of the Sukarno era and has adopted a policy geared to supporting the rehabilitation and growth of the nation's economy. Consequently, Indonesia has rejoined the United Nations and its specialized agencies including the International Monetary Fund and the World Bank and has sought to achieve closer relations with those western countries (and Japan) which are capable of providing the aid required for development. Negotiations have been undertaken with foreign creditor governments with a view to bringing Indonesia's debt obligations within its capacity to repay. Considerable progress has been made in negotiations with Western creditors and agreement has been reached with the Soviet Union. As a result of these actions, foreign confidence in the Indonesian government has been restored and substantial assistance is again forthcoming from the developed countries.

Since stable political conditions and economic development throughout Southeast Asia are vital to Indonesia's own development, an important aspect of its current policy is the encouragement of regional economic, social and cultural co-operation through such organizations as the Association of Southeast Asian Nations (ASEAN). This year the Indonesian Government initiated and played host to a conference of Asian foreign ministers which examined the problem of the spread of the Indochina War to Cambodia. This conference marked the first attempt by Asian nations to deal with the problems presented by the War and indicated that Indonesia is again moving towards a more active role in international affairs.

Internally the Suharto administration is primarily concerned with maintaining a politically stable environment in order to promote maximum economic growth. The government continues to look to the military for the main basis of support. President Suharto has consolidated

his power by a major reorganization of the armed forces which centralized its structure and reduced the power of regional commands. While the activities of civilian pressure groups are restricted, the President has demonstrated his ability to search for and accomodate opinions outside the military establishment and he has tended to assume the role of a civilian rather than military head of state. In 1971 the government plans to hold elections for the national legislative assemblies. These elections, the first held since 1955 may provide the Suharto administration with the opportunity to broaden the basis of its support.

Canada and Indonesia share membership in the United Nations, and such specialized agencies as WHO, FAO, IBRD and IMF as well as the Colombo Plan and the Asian Development Bank. In keeping with recommendations outlined in the Foreign Policy Review, consideration is currently being given to seeking membership in the Economic Commission for Asia and the Far East (ECAFE) and the Intergovernmental Group on Indonesia.

Canada's direct relations with Indonesia have been based primarily on modest amounts of economic aid and trade and small though significant (and growing) Canadian investment in Indonesia. As Canadian aid to Indonesia increases, however, and Indonesia becomes a country of concentration for aid planning purposes, and as Canada's investment in Indonesia expands there will be an increasing necessity for Indonesia to be informed of Canadian policy and Canada to be aware of developments in Indonesia.

(b) Economic and Commercial

Agriculture, which constitutes the backbone of the Indonesian economy, accounts for more than half of the country's GNP and foreign exchange earnings and employs 75 per cent of the labour force. The staple food crop is rice, in which Indonesia is not yet self-sufficient, and a variety of cash crops including rubber, coffee, tea and copra are grown, generally on large estates. Currently considerable emphasis is placed on rapid development in the forestry, mineral and transportation sectors.

Trade between Canada and Indonesia has never been extensive. In 1969 exports to Indonesia amounted to \$2,948,000 while imports were only \$284,000 although these figures would be considerably greater if entrepot trade through Hong Kong and Singapore were taken into account. Principal Canadian exports to Indonesia are wheat flour, milk powder, newsprint and machinery. Imports consist entirely of primary products such as tea, crude natural rubber and bauxite ore.

The tremendous influx of foreign capital assistance will greatly increase Indonesia's capacity to import and as statistics for the first quarter of 1970 indicate Canada may be able to establish a market for such products as vehicles and heavy mining and forestry machinery.

Canadian investment in Indonesia is considerable (fourth after USA, Philippines and Japan) primarily in the field of mineral development. In 1968 the International Nickel Company of Canada signed an agreement with the Government of Indonesia under which it was granted the exclusive rights for the exploration and exploitation

of nickel ore in the Malili area of Sulawesi. More than U.S. \$2.5 million have been spent to finance exploration activities so far and INCO currently employs about 5000 Indonesians. If developed this project will have a major impact on the country's economy. Other Canadian firms engaged in production or exploration are Sherrit-Gordon (nickel in West Irian), Asamena Oil, Bata Shoes, Alberto Culver (cosmetics).

(c) Aid

In the past few years the Indonesian Government has made considerable progress in stabilizing the economy and providing a favourable climate for economic development. In 1969 the Government inaugurated a five-year development plan under which it hopes to allocate \$3.5 billion for development. Under the plan agriculture, mining, forestry and support infrastructural development receive highest priority. The goals set by the plan are modest and appear attainable and have the support of major international financial institutions as well as the main aid donor countries.

Canada has provided a total of \$8.1 million to Indonesia under the Colombo Plan. Of this amount \$3.1 million was in food aid and \$2.4 million in capital projects. A total of 474 Indonesian students have studied in Canada.

The foreign policy review stressed the potential importance of Indonesia to the stability of Southeast Asia and

its increased capacity to absorb capital assistance. Accordingly Canada's aid allotment to Indonesia more than doubled in fiscal year 1970/71 to \$5.75 million (\$3 million food aid, \$2 million loans and \$.75 million grants). This year Canada has undertaken to prepare survey studies of the pulp and paper industry and the pine forest of Central Java and a number of project proposals are under consideration primarily in the field of forestry and transportation.

Since Canada is increasing its aid programme to Indonesia, Canadian membership in the Inter-Governmental Group on Indonesia (IGGI) is now under consideration. The objectives of the IGGI, which is made up of the principal western countries providing aid to Indonesia, are to evaluate the country's capacity to absorb aid and to rationalize and co-ordinate the aid provided. The Group has indicated a willingness to provide the \$500-\$600 million in aid annually which planners feel the current 5-year plan will require.

(d) Immigration

In keeping with Canada's general immigration policy in developing countries, immigration activities in Indonesia are limited to providing service on a responsive basis. The movement of immigrants to Canada has not been significant. During the period 1965-1969 only 250 Indonesians emigrated to Canada.

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THIRD SESSION—TWENTY-EIGHTH PARLIAMENT
1970-71

THE SENATE OF CANADA

PROCEEDINGS OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 15

TUESDAY, APRIL 27, 1971

Respecting
The Pacific Area

(Witnesses:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman

and

The Honourable Senators:

Belisle Macnaughton
Cameron McElman
Carter McLean
Choquette McNamara
Connolly (Ottawa West) Nichol

Croll O'Leary (Carleton)

Eudes Quart
Fergusson Rattenbury
Gouin Robichaud
Haig Sparrow
Lafond Sullivan
Laird White
Lang Yuzyk—(30)

Ex Officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of the travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative,

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Tuesday, April 27, 1971. (17)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 3.50 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Belisle, Carter, Choquette, Haig, Macnaughton, McLean, McNamara, Robichaud and White, (10)

Present but not of the Committee: The Honourable Senators Smith and Macdonald (Cape Breton).

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee continued its study of the Pacific Area,

Witnesses: Canadian University Service Overseas (C.U.S.O.):

Mr. David M. Catmur, Director of Overseas Operations and Acting Executive Director;

Mr. Robert D.H. Sallery, Editor-in-Chief, Readings in Development/Newstatements;

Mr. Alfred E. Harland, Fiedld Staff Officer in Papua-New Guinea;

Mr. Jean-Marc Metivier, Director of Asian Programs;

Miss Gail Ann Taylor, Assistant to Director of Fund Raising.

Agreed: That the brief, submitted by Canadian University Service Overseas to this Committee, be annexed to this day's printed Proceedings (See Appendix "N").

At 5.27 p.m. the Committee adjourned to the call of the Chairman,

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, April 27, 1971

The Standing Senate Committee on Foreign Affairs met this day at 3.45 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of 3.45; I see a quorum present and therefore declare the meeting regularly constituted.

Our meeting this afternoon continues the phase of our Pacific inquiry in which we are looking particularly at Canada's present efforts and potential role in the field of development co-operation. At our last meeting, we were exposed, in some detail, to the problems and prospects of the region, and particularly Indonesia, by Professor Benjamin Higgins.

Today we have representatives of the Canadian University Service Overseas, better known to all of us as CUSO. I know that all of our members who were then on the committee will recall the meeting with the CUSO representatives last February in connection with our Caribbean inquiry. It was not only a stimulating meeting, but it proved to be a valuable input into the whole study.

I shall ask Mr. David Catmur, who is Director of CUSO's Overseas Operations and Acting Executive Director, to introduce the other CUSO representatives appearing today. However, I do wish to note that Mr. Robert Sallery, who appeared at that meeting last year, is here again today, and on your behalf I would like to welcome him back.

A full set of biographical sketches is to be found at the end of the brief, I would like to welcome you all,

Mr. Catmur, after introducing your colleagues, you will have the floor for your initial presentation and we will then proceed with questioning. Senator Carter has agreed to lead off. Then the Chair will recognize other senators in due course.

Mr. David M. Catmur, Director of Overseas Operations and Acting Executive Director, Canadian University Service Overseas: Thank you very much. Mr. Chairman and honourable senators, it is a pleasure and, indeed, a privilege for CUSO to be invited to appear before this committee once again. Your chairman has already referred to our previous brief with respect to the Caribbean, which we have reason to believe was fairly useful, in that after the proceedings had been printed we had no less than 1,000 requests from both overseas and across Canada for copies.

I would like to introduce my colleagues. We have a vast array of talent up here which I believe reflects the diversity of opinion represented in CUSO. On my right, having already been introduced by the chairman, is Mr. Bob Sallery. Mr. Sallery was with the CUSO

staff in Nigeria, subsequently became our public education officer and is currently responsible for the CUSO publications. I believe he has brought some of these with him, if anyone is interested in looking at them. On his right is Mr. Fred Harland, who was a volunteer with CUSO in Ghana and is currently our field officer on assignment in Papua and New Guinea. He has returned recently to consult with his area director, Mr. Jean Marc Metivier, who is on his right. Mr. Metivier was a volunteer and staff member in Thailand with CUSO, and is now in charge of the Asian area, which includes the Pacific region which you are considering at this time. In addition, it includes India. On the far right is Miss Gail Taylor, who was also a CUSO volunteer in Thailand and a part-time staff member there. She is currently responsible for perhaps the most difficult job in CUSO, fund raising, which is particularly difficult this year.

Mr. Chairman and honourable senators, CUSO's ability to present a useful brief on the Pacific area or elsewhere is a reflection of our physical presence there and the fact that our overseas personnel are in daily contact with nationals, as their employees. Constraints of time have prevented us from involving our overseas personnel and their hosts in the preparation of this particular brief. We are particularly fortunate in having at least Mr. Harland with us today, who can perhaps give us some insights with regard to the South Pacific. Our brief has therefore been prepared without the essential input of national opinion and the views of our personnel in the area.

That in our estimation makes us a little nervous of presenting it as a considered set of views. Nevertheless, we have sought to be consistent in the arguments we have voiced in our Caribbean brief, in our earlier presentations before the House of Commons committee on international development assistance, and in similar presentations to such agencies as ECOSOC, in today's brief, and in a brief that we are currently preparing on Canada's relations with South Africa.

CUSO's presence in the area you are considering is somewhat peripheral, as indeed we would suggest is Canada's. It is clear that the major factors affecting the Pacific region, which we are looking at, perhaps as follows: the war in Indochina; China itself, and perhaps Japan's emerging economic power, and the United States strategic interests.

We have no volunteers in Indochina. At present we have none in Japan or China. In the early days of CUSO there were, I believe, two of our volunteers in Japan and one in Vietnam, but that was a long time ago. However, the war in Vietnam affects most of the countries in which we work, and Canada has recently—wisely, in our opinion—recognized China; and everybody, particularly this committee, is interested in Japan's future economic and, perhaps, political and defense role in the region.

Foreign Affairs

In the brief that we have presented to you we have dealt with some extremely broad issues. In fact, I think some might argue—and some already have argued—that we have dealt with generalities. However, these statements are really questions, and if we have posed them in an impudent or provocative manner it is perhaps to highlight them as questions. We believe that we should examine these questions before we make any forays into developing areas, If that is impossible, then we must immediately examine the questions in retrospect.

Among the important questions we have posed—and we have posed them to ourselves as much as to this committee, or anybody else—are the following ones. Do we subordinate long-term developmental, political and economic interests to short-term gains, be they commercial or political? Are we in Canada seriously addressing ourselves to the chronic imbalances and their causes that bedevil international trade? Are we contributing significantly to multilateral and regional organizations servicing the needs of the Pacific region? Do we carefully examine our investment policies for the area to ensure that they are not unduly exploitative? Indeed, what mechanism exists for us to do this? Have we adopted, or should we adopt, a resolute position with regard to the Indochina war? Finally, how transferable are our educational, health, industrial and technical systems, and even our political and economic systems?

We hasten to add that in posing these questions, which are very broad ones, we do not have the answers, but we feel they are questions that must be considered; they are part of the day-to-day problems which face CUSO in its own small programming priorities, and we would appreciate, Mr. Chairman and honourable senators, discussing these with you. Thank you.

The Chairman: Thank you very much, Mr. Catmur. It is my understanding that as questions are forthcoming you will either answer them yourself or delegate the answering to whichever colleague you feel is most suitable.

Mr. Catmur: That is right, Mr. Chairman.

The Chairman: If everyone is in agreement, we will now proceed with the questions—Senator Carter.

Senator Carter: Mr. Chairman, you referred to the last appearance of representatives of CUSO before this committee. For the sake of continuity, I should like to ask one or two preliminary questions before turning to the brief.

If I remember correctly, at your earlier appearance a little more than a year ago, on February 17 last year, reference was made to the reorganization of CUSO, newly organized programs that would need workers who were far more highly qualified and with higher technical skills than heretofore. How is this reorganization going? Has this been worked out yet? Does your program in the Pacific rim represent this new approach?

Mr. Catmur: I think I can give you a preliminary answer, senator. The trend is very clearly towards demands from these countries for more technically qualified and experienced personnel. The ability of CUSO to respond to these requests and find the right people is often a function of the employment situation in Canada. Can I say that we are probably one of the only organization in Canada today that

is in a very happy position because of this unhappy employment situation? These technical and experienced personnel are coming forth in search of work. This is what it amounts to.

You refer to the reorganization, but I am not quite sure of the context. We are undergoing a fairly extensive deliberate reorganization to decentralize our decision-making to the field, so that serving volunteers, host nationals and field staff may lead the organization, rather than being led by, what is often described by our younger and more extreme elements as "the ossified bureaucracy in Ottawa," So, in a sense, it is working, sir.

Senator Carter: The reason I ask that is because of page 3 you talk about the pitfalls you have learned to avoid of imposed solutions, the application of irrelevant technologies, irrelevant educational systems and practices, health services etc. Most of all you stress:

the perpetuation of some blatantly exploitative relationships.

Then you go on to emphasize:

A deliberate effort is being made to subordinate the organization's decision-making processes and priorities to the needs of the countries.

I was wondering whether this was your new approach?

Mr. Robert D. H. Sallery, Editor-in-Chief, Readings in Development/Newstatements, Canadian University Service Overseas: If I might put some continuity between last year's presentation and this one, the intent of the statement we made last year about decentralization is still the intent embodied in the underlined statement to which you have just referred. I think last year we said that we were moving our field staff officer in the Caribbean directly to the Caribbean area itself as opposed to having him resident in Ottawa. For the Caribbean I think this has worked out particularly well, Mr. Metivier can speak on Asia in a moment but there we are in the process of developing local host national committees to assist us and advise us on their needs and the ways in which we can be of assistance to them. That is the intent and the sense of the statement.

Senator Carter: I am wondering if this is an approach peculiar to CUSO, or is it a general approach of CIDA? Has CIDA adopted this approach as well?

Mr. Catmur: I think it is an approach that all aid-giving agencies would like to adopt. I think CUSO is in a peculiarly flexible position as a result of its independent and private nature. It is very difficult for CIDA to have this same flexibility, although I think they are probably committed to the same idea. If I may correct you very slightly, Senator Carter, our opening paragraph is a little provocative. We did not imply that we have avoided all these pitfalls. We are continually seeking to avoid them.

Senator Carter: On page 3 you talk about:

the formation of local overseas advisory groups involving the nationals of the countries concerned.

I presume they are the same people as you are talking about on page 13. For example, in Thailand you say:

... there is an operative committee composed of volunteers; there will soon be a similar committee composed of Thai people to advise on CUSO programing and policies. These are the same people you are talking about?

Mr. Jean Marc Metivier, CUSO Director Asia Program: Yes, they are.

Senator Carter: My question is: Where does the Thai government, the local government, fit into this picture?

Mr. Metivier: In all the countries in which we work we always work very closely with the government. In a country like Thailand, the inputs from outside agencies and aid-giving countries are co-ordinated by a body called the Department of Technical and Economic Co-operation. It is in collaboration with this body that we set up committees such as this one, the co-ordination of our work and the establishment of priorities within the country. Thus there is an immediate input of the government through the administration through which we deal. Very often the members of these committees—as in Thailand—will be administrators, working in these places; and that shows the official kind of consultation we have with them.

Senator Carter: I got the impression from your brief that part of the reason for having these committees is so that they could evaluate what you are doing, to evaluate your priorities and probably change them.

When you go to Thailand, for example, you go there at the request of the Thai government and when they ask you to come they say what they want you for. Specifically, they want you to help with educational training and the various phases of their existence there. So you already have an established set of priorities when you arrive. You set up a committee and call it "an operative committee composed of volunteers." Then you set up another committee on "CUSO program and policies." You do that within the priorities already established by the Government?

Mr. Catmur: If I may respond to that, what invariably happens is that requests for people far outrun the supply or our ability to put people in the field. There is, therefore, very often a great deal of discretion and flexibility left to the field staff, to determine which positions they will fill. If there is a request for ten teachers of English as a foreign language in Thailand and we only come forward with five, we can pick and choose sometimes between the schools. Sometimes, and this is a very minor example, we will pick the wrong school for the wrong reasons. It is here that formal consultation with the local people is necessary.

Senator Carter: That answers quite well the point I was raising. I was wondering if you went beyond that. You talk of a partnership, that you are trying to build up a partnership relationship. I am wondering where you start with that. Do you start with these advisory groups, or with the Government, or somewhere else?

Mr. Catmur: Senator, we are the invited employees, usually of governments. In some cases, in Latin America, CUSO will be in a country, serving a private institution, under a very general government umbrella. Therefore, anything we do in these countries must be in complete consultation with the local government. I think that the kinds of things we want these local committees to do is to help us, for example, select counterpart nationals, whom we will assist in training, and to help us identify those institutions within the

country or within the region to which we can send those nationals for training. We want to resist this tendency of outsiders to air their own views and make their own judgments. If I may comment a little on that, I was frankly appalled at the statements contained in Dr. Higgins' recent presentation to you regarding the "corrupt nature and the inept nature" of the administrations and the governments in many of these areas, I bow to Professor Higgins' superior knowledge of this region, but I think he has no business making this kind of adverse, paternalistic judgment. However, I think we have the same tendency sometimes, and we try to get away from it by involving some of these local people in the decision-making process.

Senator Carter: That is a very important point, because you have come down a bit heavy-handed on the methods used previously, which you termed exploitative and so forth, and you are trying to develop this new partnership approach. I gather that you are pioneering a method which you hope will be adopted by others in their approach to developing countries, in a particular area.

I want to turn now to page 5, paragraph 3, of your brief where you say:

Short run political and commercial national interests have dictated for far too long our posture in the area, to the detriment of both Canadian corporations and the public at large.

That is a pretty startling statement, and I wonder if you would like to elaborate on it and give us some examples.

Mr. Catmur: Does any of my colleagues wish to lead off on this one? If not, I would suggest what we have in mind here. I believe that this committee has already heard from the representatives of Alcan and other multi-national corporations. Let me preface my remarks by expressing the view that I do not subscribe to the myth that all commerce is vile, and I do not think anybody in CUSO does. There have been examples, which we drew to the attention of this committee in our Caribbean brief, of commercial investment which paid off handsomely in short-term dividends, but what happened to Canada's image in the Caribbean?

If you consider the South Pacific area, indeed, if you consider Indonesia, the Philippines, New Caledonia, you will find perhaps the beginning of a similar trend to that which took place in the Caribbean, of mining and resource exploiting corporations, moving into the area to exploit nickel deposits or oil.

What concerns us a little here is the pattern. For example, what happened to Alcan in Guyana? They have presently just about finished negotiations in terms of the Demerara bauxite company there. It seems to us that when a large corporation goes into one of these small islands or small countries, with a tremendous inflow of capital to exploit a resource, they have a responsibility to ensure that they minimize the damage and violence which they do to the local economy and the local culture.

It would appear to me that we in Canada should be most sensitive to this issue, because do not a large number of Canadians voice this self-same criticism of American capital and American exploitation? I should not use the term "American"; I should say United States exploitation of Canadian resources.

We feel that there are signs in the Pacific region that we may be going in the same direction. There is a very interesting example and I draw your attention to it, senator. It is the curious relationship which we have with Indonesia in terms of trade. I think it is about half a million dollars a year in terms of exports to Indonesia. One of the reasons we cannot export more to Indonesia is because so many more substantial aid donors tie their aid to their own exports. Therefore, Canada is squeezed out.

Our investment in Indonesia is almost confined to nickel and oil, and most probably those resources are being extracted for processing elsewhere.

I hope I have substantiated our "unreasonable" point, sir.

The Chairman: May I interject, Senator Carter? I should like to draw Mr. Catmur's attention to his statement, found on page 5, paragraph 2, that "Canada has a comparatively 'clean' record in Asia so far, having been neither a colonial power nor an active participant in the Indo-China war."

I wonder how you reconcile what I consider to have been a very skilful answer with that statement.

Mr. Catmur: Mr. Chairman, how can I reconcile it? I think the operative word is "comparatively"—"Comparatively 'clean'". Why are we clean? Possibly because we are not particularly involved. I think Mr. Pepin, the Minister of Trade and Commerce, pointed out that our commercial interests in this area are relatively small at this time and are confined to relationships with a few rich, developed countries and do not really extend to any great degree into the area.

I think I should choose my words carefully here. We have not been seen to be actively involved in the Indo-China war, although some people would say that we have supported the American efforts indirectly, and we certainly have not taken a resolute position on that issue. Therefore, I would say that Canada has done precious little and therefore has not been able to dirty its reputation. I think its reputation will remain good, if it pays attention to the net results of commercial investment in the area of economic and political relations.

The Chairman: Senator Carter, would you permit a supplementary question by Senator Belisle?

Senator Carter: Certainly.

Senator Belisle: Thank you, Mr. Chairman. This short run, political and commercial, national interest that has dictated far too long our posture in this area is very relevant to the question that was asked by Senator Carter. Before I ask my direct question, may I be permitted to say that when we toured Africa last year we were faced with the same problems, especially in Zambia and Tanzania, where our CUSO workers told us that unless they were permitted to take direct action or get involved with the freedom movement they would leave. In fact, some left Malawi because they were not permitted to criticize His Excellency Dr. Banda, because he had too much of a friendly attitude towards South Africa. We met people in Zambia who were very critical of the situation and were going to leave for home because they said they would like to be involved in the political movement.

In your thinking, should they be permitted to take part? With respect to our CUSO workers, my direct question is: Should they be permitted to take part in the political evolution taking place in Asia, in the Pacific?

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Mr. Catmur: That is a real curve ball you have thrown at me, because I notice in the room some of our CUSO staff from east and central Africa, who I must say are very resolute in their utterances and their public support, as private individuals, of the liberation movements in Angola, Mozambique and Southwest Africa. You ask me whether I think CUSO volunteers should become actively involved in liberation movements.

Senator Belisle: Especially in Malawi. It is the policy of the government of Malawi to be friendly towards Angola, Mozambique and South Africa, because it means life and bread to them.

Mr. Catmur: I think the first answer to your question is a statement of CUSO policy. CUSO policy is this: it asks its volunteers when they go to the field to refrain from active involvement in local politics of any type whatsoever. We stick to this. However, we are human beings. A large number of our volunteers who have served, for example, in Tanzania and Zambia, served in an environment which is absolutely against the regime in the Republic of South Africa, the regimes in Angola, Mozambique, Southwest Africa and Equatorial Guinea.

I will answer your question in the way the Minister of Finance of Tanzania answered me about two months ago when I asked him, "Sir, should we assist the liberation movements, and how should we do it?" The Minister of Finance told me that we should confine our activities to assisting refugees, which we intend to do, and we should only assist the refugees in a manner which the host government, the government that is the host to these refugees, shall ask us to.

By the same token he said to us, "If you wish to assist in the liberation movements, you should follow the example of many church groups, the Swedish in particular, and you should place volunteers in liberated areas to assist in hospitals and in educating the children." I, personally, as Acting Executive Director, do not at the moment have the guts to take that decision, because I am not quite sure what would be said to me by my funding sources in Canada. I believe that Canada should take a resolute position on these issues in Africa, and I believe that they have not as yet, and we will argue until—I must moderate my language. We will argue until the cows come home that Canada should take a resolute position.

The Chairman: I thought you were doing beautifully, Mr. Catmur.

Senator Carter: If I heard you correctly, Mr. Catmur, you cited Indonesia as an example, and you said Canada was squeezed out because other countries tied their aid to trade and that Canada does not do that. Would you have Canada change its policy in Indonesia?

Mr. Catmur: Canada ties a great deal of her aid, sir-too much.

Senator Carter: How are we squeezed out, if the others are doing it too?

Mr. Catmur: Senator, I think what has happened here is that some bigger boys have got in there first and have tied more of their

aid to their own products. I think that this is an iniquitous way to give aid. I do not think it is in the long-range interest to our own industry. I think it makes a great deal of political sense in Canada because it gains support for the aid programs, but on the whole I think the more farsighted aid-giving agencies and countries—and I think Canada is trying to do this—should untie their aid.

Senator Carter: If we did not tie our aid, but left it free, would that be beneficial to Canada? If we gave aid without any strings attached at all, would that be of benefit to Canada?

Mr. Catmur: I would argue that in the long run you are better to trade on the basis that your product is the best and the cheapest. I think that if you tie too much aid, as I think the Americans have in the past, you will tend to subsidize inefficient sectors of your economy. I think in the long run that brings about a disequilibrium which is bad for the Canadian economy.

Now, I would grant you that, if you are going to untie all aid, you had better be rather careful about it. You ought to more cautiously so that you do not disrupt Canadian industry and further exacerbate the employment situation.

Senator Carter: Canada's trade policy, as announced by the Minister not too long ago, is a general preference scheme open to all countries. You seem to disagree with that in your brief and you seem to prefer a selective trade arrangement. Would you care to put us right on that? Do you disagree with our present trade policy?

Mr. Catmur: I think I disagree with certain aspects of it, and I think the roots of my disagreement are these. In one of the previous testimonies which I read, I think some mention was made of a possible preferential trade arrangement with less developed countries per se. Now, of course, we can argue about what constitutes a less developed country. But when the Minister of Trade and Commerce refers to our preferences, what does that in reality mean? It means that we trade with the Australians, with the Japanese, with the New Zealanders; that we take a certain amount of rubber and tin out of Malaysia, that we will extract nickel from New Caledonia and sell it around the world. But in terms of true partnership, our trading relations with Indonesia, with a population almost equal to if not larger than that of Japan, our trading relations with the Philippines, our trading relations with almost the entire Indo-Chinese peninsula, with Burma, with the small Pacific territories and islands, is almost nonexistent. It is non-existent because they are not rich enough to do business with us and you do not have to look too far, in my opinion, outside of Canada to find out what happens when the rich do business with the rich to the exclusion of the man pounding the street looking for a job. You find a disruption of your economy, a disruption of your society, and this is reflected very deeply, I think, on the international scene. We do not have preferences; we deal only with the rich. I think that is an extreme comment and I feel very strongly about it.

Senator Carter: It is a little different from what the minister has in mind.

The Chairman: I think, Senator Carter, it goes back to your definition of developing countries, which is the point that Mr. Catmur made originally.

I should like to ask a supplementary to this. If there are to be exceptions—and you make the point that perhaps the South Pacific might be an exception—could you not also make a very strong case that the Caribbean might be an exception, in view of our historic ties?

M. Catmur: Mr. Sallery, would you like to anser this?

Mr. Sallery: I think this is one of the problems we face. Canada perhaps does not have enough resources to engage in bilateral arrangements with all countries, but we have to make known our intentions. Perhaps a preferential trade arrangement with one area of the world as opposed to another should be made known publicly so that these people will know why we deal with this area and not with other areas.

Senator Carter: I would like Mr. Catmur to go a stage further on this. He talked about the new concept of trading partnerships. But how do you see that working, for example, if Canada had a trading partnership with Indonesia or the Philippines?

Mr. Catmur: I think people might argue that the concept I have in mind is impracticable. I believe that unequal partnerships, be they political, commercial or otherwise, are somewhat dangerous. Here I must be careful in defining what I mean by a partnership. I do not say there is something sacred about balancing your trade with every country. Sometimes they sell a little more to you than you sell to them, but it balances out in the long run. To illustrate what I mean I read in one of the reports of an interesting commercial development in which the Polymer Corporation is involved in a joint venture with a Malaysian concern where they are going to mix natural and synthetic rubber to manufacture particular items. I think this is useful. But why is it useful? I think it is because we are using the natural rubber which Malaysia produces, but the price of which is consistently going down. The price of her tin is going down. The price of Carribbean sugar is a disgrace, and I think Canada's role in it is a disgrace. When you look at the price of coconuts or copra from the South Pacific, and the price of palm oil you realize the terms of trade are loaded against the primary producers, and most of the primary producers are located in these underdeveloped countries with the notable exception of our own prairie wheat farmers who know a great deal about the loaded terms of trade against the primary producer. Let us look at recent developments with regard to Middle Eastern oil. There the Arab countries finally agreed and got together to try to force up their share of the price of oil. They succeeded, and all power to them. I think they probably need the money. I prefer to see it going into development rather than fighting the State of Israel, and they will probably put some of it into development. But what will happen in the long run if they succeed and in concert put the price still higher? Perhaps they will put it to the stage where it will no longer compete with Alaskan oil or the oil from Alberta. Here I should say that I do not know enough about oil prices, so I may be wrong on these things, but if they eventually push it high enough, the attitude of the west could be: "Let us look at substitutes; let us power our automobiles with batteries; let us get the proverbial fuel cell going so that we do not have any pollution; let us not use their oil." That kind of decision, if you had a massive substitution of synthetic for natural rubber, or electricity for oil, could have an absolutely devasting effect on the primary producer,

and I do not think that Canada ought to take this type of decision without thoroughly exploring the effect on the local economy.

Senator Carter: I agree with you up to a point, but I am afraid I cannot agree with you one hundred per cent. You mention as an example the sugar from the Caribbean. What is the alternative to that? Should we and the other countries pay an artificially high price to keep these people producing sugar when we know that as long as they are producing sugar and making some kind of an existence out of it, they will not turn and there is no incentive for them to turn to other means of employment? Is that a sound policy, to inflate the price, to have an artificial price of a product just for the sake of giving people work?

The Chairman: Mr. Catmur, before you answer the question I would like to remind Senator Carter and the meeting that I will be pleased with a general answer as it relates to sugar and the Caribbean, but I would like you to direct your attention to the Pacific.

Mr. Catmur: Mr. Chairman, I can answer this perhaps in terms of the Pacific, I must admit to you-and I hope that Mr. Harland will correct me-that I do not know a great deal about the South Pacific, but let us take a look at Fiji. Fiji is another economy which relies fairly extensively on sugar. It is a society which suffers from a great deal of racial tension. Most of the sugar interests in Fiji are basically foreign owned. They have to sell their sugar under the current marketing arrangements, and the price which you regard as a fair price, the world market price, is essentially a price dictated by the major consumers. These major consumers' external representatives often own the plantations that grow the sugar. They benefit from the profits, if any. There is a kind of incestuous relationship there, where the man who buys all the sugar dictates the price, exploiting that local economic dependence and not setting a price which permits the production of sugar without resort to mechanization, which will displace labour, which will lead to unemployment, which will lead to added emigration, which will lead to social and political dislocation. In fact, the major sugar consuming countries, not only in Fiji but also in the Caribbean take away the cream of qualified individuals. I believe that a tremendous number of Fijian doctors have come to North America, and even to Canada. They may force down the price of sugar, put the field workers, the cane cutters, out of work and sell their expensive capital machinery to do the job.

Senator Macnaughton: Could I ask if the witness has any facts? I am not trying to ask unreasonable questions, but you said that the majority of the sugar land is owned by foreigners, outsiders. My impression was that the Indians who are citizens and residents of Fiji have more or less taken over the market.

Mr. Catmur: I think you are right to correct me. I am way out on a limb, I asked Mr. Harland to correct me if I was going astray.

Let me say this. The origin of the Indians in Fiji is in itself a function of the colonial past of that country. Indeed, I think the division of land between the Indians and the native Fijians has a great deal to do with the previous relationship. But I would also say that some of the major corporations in Fiji certainly were and still are foreign owned. What percentage of the land is foreign owned I do not know. It is probably wrong to say the majority; perhaps it is the minority.

Senator Macnaughton: It is rather important if you are using Fiji as a test case because the total land area in Fiji is owned by the Fijians themselves, and an Indian cannot buy land without the consent of the Fijians, who happen to be in the majority at the moment. That might put a different complexion on the general statement that outside influences are exploiting them.

Senator McNamara: This may be more of a suggestion rather than a question: would the witness not agree that multilateral commodity agreements are the answer to these problems, with minimum and maximum prices and perhaps quotas? Sugar did not work and tin did not work. This is one of the basic answers to the problems of these developing countries and their products.

Mr. Catmur: I have been taken off one hook, and I would not presume to differ from your very expert advice on this matter. If we are going to have multilateral commodity agreements let us make pretty certain that such agreements take into account the prime interest of the producer. Unfortunately, in my estimation many commodity agreements are obviously and naturally greatly influenced by the interests of the consuming nations. It is very difficult to change that. I am sure that the Wheat Board is thoroughly familiar with this problem.

Senator McNamara: In some cases probably the primary producers went too far in respect of price, which resulted in the collapse of the agreement.

Mr. Catmur: I am sure that Canada did not do that, senator.

Senator Carter: You disagreed very violently with Professor Higgins on one account. Professor Higgins also recommended a Marshall Plan for the Pacific rim. What is your reaction to that?

Mr. Catmur: I had this rehearsed, and I have to say it. Professor Higgins talked about AIDSEA. I started thinking about the hymn which deals with the perils of the deep. I would like to hand that question over to one of my colleagues to comment on. However, in my opinion I think the strengthening of inter-regional and regional associations is a matter of some priority. Canada has already made fairly significant contributions to such institutions as the Asian Development Bank and is contemplating, I believe, a fairly substantial contribution to the International Rice Research Institute in the Phillipines. I think we must be very careful in imposing Marshall Plan type solutions because surely the success of the Marshall Plan in Europe was a function of the administrative structures and strengths, and perhaps of the existing bureaucratic infrastructure and flexibility which European economies enjoyed. I am mighty suspicious of a recommendation that says "Okay, this is what they need."

It appears to me that having made a very adverse judgment of the capabilities of the governments concerned, Professor Higgins proceeds to propose a solution which will obviate dealing with those governments. This, I think, is nonsense.

I think he is confusing very fundamentally an international agency with an intergovernmental agency. I believe that these multilateral agencies are in essence intergovernmental and require the approval and the full co-operation of the governments concerned. If we create a dreamy international structure it will function in the manner which the Jackson Report on United Nations

Institutions has very ably pointed out. I would be very suspicious of it. But let me admit that Professor Higgins knows a great deal more about that part of the world than I do.

Senator Carter: The Marshall Plan was successful in Europe. Is there any reason why it would not be successful in other parts of the world?

Mr. Harland: It seems to me that there is a basic difference. As my colleague suggests, and I think it is very true, a lot of capital that was brought in under the Marshall Plan was useful basically because of what had already taken place. People were skilled. You had patterns that could be easily utilized. But when we are talking about many of the other developing countries, these patterns do not exist. In many cases the basic process of development is one of taking people and changing motivations so that they themselves will make their own decisions about what is going to happen.

It seems to me that capital came in under the Marshall Plan in the context in which there was motivation to utilize it. If you are dealing with less developed countries, this does not exist. We could take as an example Papua—New Guinea where the Australian Government, in its concern to develop that area, is trying to develop the area in the only way it can, namely, by bringing in more and more foreign expertise and pouring in capital.

One of the difficulties that many Australians are recognizing is that in doing this in, for example, a big copra project on the Island of Bougainville, it requires a lot of fancy skills. Local people all too frequently do not have these skills and you have to bring in outside help to do it. The copra project delivers capital and you get more and more money into society, which if used wisely is of benefit. But at the same time you erode much of the culture and you do not train people. What is required are low level projects in which local people are involved and in which they receive further education through the process, rather than bringing in something else.

One of my feelings about the kind of scheme which Professor Higgins outlines is that unless they see the necessity for relatively low level projects in which individuals from the society are involved, something is done over their heads which is not only disruptive of society but is not dependent on those upon whom the development ultimately depends.

Senator Carter: Thank you, Mr. Harland.

The Chairman: If there are no further questions at this time, I have some questions of my own that I should like to ask. The first is, if Canada is so particularly well placed to assume a greatly expanded role in assisting developing countries in the Pacific region, firstly would CUSO recommend that Canada cut back in its aid involvement elsewhere in order to give a higher priority in the Pacific, and if so where?

Mr. Catmur: I think I have yet another quarrel with Professor Higgins, I keep recalling them. I am in great fear and trepidation trembling because I recognize him as being a most distinguished development economist. He did suggest somewhere in his presentation that perhaps you should cut out some of your aid to India and Pakistan and give it to somebody else. I think Canada faces a very difficult problem with priorities. We cannot afford, as a single country, to proliferate our assistance to every possible country. By

the same token our aid is still what I would regard as being at a miserably low level. By the same token, sometimes there is wisdom in applying limited resources to particular countries. I believe countries of concentration is the term used by CIDA, just as Mr. Pepin referred to product concentration, or something of that nature.

I do not think that Canada should withdraw aid from any particular country in order to expand and give it elsewhere. There should be a consistency, a pattern; one becomes perhaps more informed and constructive as their association with a country develops. We should not think in terms of aiding one project only then transferring to somewhere else.

Canada's High Commissioner to Australia was recently in our office. He feels very strongly and I agree with him that certainly in the South Pacific area very little more aid would have a tremendous impact and it just would not cost us that much more money.

The reconstruction in Indo-China which may emerge in the next two or three years, hopefully sooner, when this horrible war stops will create numerous needs. One role Canada can play will be in the process of the United States disengagement when there will be a tendency, and I think this is typical of the response of the American people, toward total disengagement. Canada can perhaps lead in ensuring that not only her own, but substantial US resources are mobilized to reconstruct the area, just as the Americans did in Korea. There was a massive effort and they financed it, but I think their revulsion after their experience in Indo-China will be really extreme. I feel that Canada can play a very, very important, friendly and constructive role, both in relation to the area concerned and to the United States.

The Chairman: Thank you very much for the answer. I assume, therefore, that in CUSO you advocate and pursue the policy of consistency.

Mr. Catmur: Yes. Mr. Chairman, we are not paragons of virtue. As a matter of fact, we have probably committed every mistake in the book. There have been certain glaring inconsistencies in our programs, but we are learning our lessons.

The Chairman: I admit to a provocative question, Mr. Catmur. Referring to the specifics, does CUSO believe that Malaysia and now Indonesia should be the countries of main emphasis? To amplify the question slightly, I would like to hear someone discuss the justification for Indonesia being a country of concentration.

Mr. Metivier: Is this in terms of CUSO, or for Canada as a whole? I could explain it in terms of CUSO first. It depends a great deal on the kind of requests we receive from these two countries. It brings us back to the point we made earlier in the presentation, that our involvement always depends on the requests we receive.

As indicated by the statistics in the brief, we have been present in Malaysia since 1961. To be more accurate, we started in Sarawak. In terms of Indonesia we have not yet received finalized requests. We have had some informal contacts with officials of the Indonesian government. Therefore our consideration would depend to a great extent on the requests we receive from Indonesia. We can express at this time some interest in Indonesia, but it is very difficult to go any further.

In terms of Canada, it might be presumptuous for us to offer suggestions or different ideas. Malaysia is certainly a country which can utilize resources very well at this point. It seems that their emphasis is in terms of untied aid, so that they themselves can direct the resources towards specific projects. Many projects developing in Malaysia at this time are relatively small. Therefore the Government seems to have difficulty in securing outside resources for them, because they are too small to raise the interest of donor nations. They would like to have a more open policy in terms of untied aid in order to develop these local projects.

In terms of Indonesia and Canada, it would be difficult for us to provide an answer because we have no experience in that country. We are aware of Canada's interest in Indonesia, but it would be difficult for us to comment.

The Chairman: Thank you very much, I am seeking a raison d'être; why would Indonesia be chosen, in a responsive fashion, true, instead of the Philippines?

Mr. Metivier: One factor that has always been very important in CUSO has been the alternative sources of supply of the manpower we can provide. In a country such as Indonesia, where the Peace Corps does not exist, the American presence is still relatively small and other foreign agencies are still not building up programs, CUSO feels that there might be a role to play. Therefore this aspect of the resources the country already has and the role CUSO could play is a major factor in deciding what priority we should give.

Mr. Catmur: I find it extremely difficult to establish a rationale for the determination of priorities for the CUSO program. This is particularly so in terms of Canadian aid priorities. Where is the rationale for saying, for example, that Indonesia will have priority as opposed to the Philippines?

In dismissing the Philippines, which has been a traditional American responsibility, we should be careful of what I suspect to be the growing disenchantment of the Filipino people with their undue reliance on the United States.

There are signs in the Philippines that the incipient Huk rebellion, which has been going on now for years and years, flares up and down. Coupled with the dissatisfactions of the people and the restive nature of the society, it is beginning to display some of the worrisome signs that perhaps will make it an area of prime interest. There is again the fear that I will be caught, as I was on Fiji, and quite justly chastised. I do not really know the Philippine situation, but I just make that comment.

The Chairman: I am interested in your reply, because my concern and I am sure that of many other senators is whether Indonesia is really likely to benefit from a Canadian impact?

Mr. Catmur: Mr. Chairman, we have made a few critical remarks, which I think are a little unfair, saying that perhaps the committee has been . . .

The Chairman: Myopic.

Mr. Catmur: No, we said we were myopic in terms of looking at the Japanese-Canadian trading relationship almost to the exclusion of some other considerations. Senator Carter: It appears to me from your brief that you selected Indonesia and the Philippines to illustrate your point that Canada trades with the rich and not with the poor, and you picked out these two poor countries. Is that the main reason why these two countries are mentioned in your brief?

Mr. Catmur: Perhaps you could rationalize Indonesia in this way. You could say that Japan has 90 million or 100 million people and Indonesia has so many million people. It is an extremely large, populous country, a country relatively rich in resources, a country with tremendous agricultural potential. It has its own rubber and tea plantations, which are perhaps something of a liability today but which were once extremely productive. It could be argued that there is no reason why some of these agricultural enterprises cannot be diversified and the economy put on a sounder footing. Indonesia, it can be argued, has everything. Perhaps what it has lacked in the past has been that degree of political stability which I think is an essential precursor, and perhaps in the judgment of CIDA and others, this is now there and there is room to move ahead.

Senator Carter: But was Indonesia not already well developed, and has not the economy lapsed recently, within perhaps the last few years, so that the economy is not as advanced today as it was several years ago? Did not Sukarno just about ruin the country?

Mr. Catmur: It has been said that Sukarno contributed to the economic dislocation. I wonder to what extent the Dutch colonial involvement, followed by the Japanese occupation, made the Sukarno type régime inevitable? I would look further into the history of Indonesia to point the finger of responsibility for the current economic embarrassment that country incurs.

Senator White: On page 5 and in the recommendations on page 9 the brief indicates in a rather extreme manner what Canada should do about stating its position towards the war in Indochina. There are other wars going on at the present time. There is the situation in the Middle East, and also the war between East and West Pakistan. I notice that on page 5 the brief indicates that CUSO is going to express a similar argument in a forthcoming brief on the South African situation. It seems to me there is an element in this country that is all too anxious to tell other countries around the world, including South Africa, Rhodesia and so on, what they should do. Other countries have sent troops to Southeast Asia. Canada has not sent any. We sent troops to Korea, which puts us in a different position, I do not see why, as you say on page 5:

Canada must-

You use the word "must"

-adopt a visibly independent policy position in this area while there is still time.

We are not involved in that war. We have no troops there. We are not sending any money, and we are not helping one side or the other. The same applies in the Middle East and in Pakistan. Why should we go around stating positions such as you suggest?

Mr. Catmur: I appreciate your position. There appears on the surface to be a certain amount of inconsistency in our argument. For example, I have been somewhat critical of Professor Higgins for dictating solutions or making very adverse judgments on these

governments, and out of the other side of our collective mouths—we recommend Canada's taking a resolute position over certain international issues. I am afraid, with respect, your remarks sound very similar in historical terms to some of the arguments that were used in the years leading up to Munich prior to the last world war.

I believe that the war in Indochina has had very far-reaching and severe consequences. I think it has brought the people of the United States to a state of utter confusion and despair. I think the effect of the war in Vietnam on the peoples in this area has been absolutely devastating. I personally believe-and I served in East Pakistan for six months-that the current civil war, the subjugation of the Bangali people by West Pakistan, is a disgrace, and I believe that Canada should do everything in her power to alleviate that problem, not to exacerbate it. Why I would recommend our taking a resolute position-and I would advocate opposing continued American involvement-is because I think that if we do not, in the long run, Canada's reputation for integrity will be damaged in a number of countries. Speaking for myself I think that had our opposition from the outset been voiced consistently in articulate terms the Americans might have been a little influenced, and might have changed their minds.

I think Miss Taylor has some very interesting observations on the need for a Canadian identity.

Miss Gail Ann Taylor, Assistant to the Director of Fund Raising, CUSO, Ottawa: I have come back from Thailand within the last six months, and I would like to try to indicate to you some of the impressions the Thais have about Canadians, I think Canadians are very concerned now and rightly so, about their own identity here in Canada. We tend to think we have one. However, when you go to a country like Thailand, which is not in the Commonwealth and whose educational program does not really concentrate on middle power nations like Canada, often the people that CUSO volunteers, for example, deal with, have never until they meet a CUSO volunteer heard of Canada. They see a white individual who speaks English, who comes over as a volunteer, and they immediately say "Oh, you are Peace Corps". The words "Peace Corps" have become a Thai expression.

When someone asks you where you are from and you tell them Canada, they reply, "Oh, you are an American". Because they do not know about Canada, they do not know where Canada is, what we stand for, because physically and linguistically most of us are American in appearance, there just is no differentiation at this time between an American and a Canadian possibly because of our peripheral involvement in the area. If some stand could be taken by Canada to differentiate herself from the war it would be a positive thing. At a higher level, the government level, the people I dealt with did know that Canada existed; many of them had been to Canada, and their comment on Canada's foreign policy, if they had one, was related only to Canada's position on the International Control Commission. There we saw Canada as the American voice. I just make these comments from my observations in Thailand, where we are considered Americans.

The Chairman: Thank you very much, Miss Taylor, I wonder whether you also went to Malaysia. Would you think that the same line of thinking would be applicable to Malaysia, or do you think

that the Malaysian people might have a slightly different point of view about Canadians and about any particular change that Canada might have in its policy towards Indo-China.

Miss Taylor: I was not in Malaysfa.

Mr. Metivier: The situation is very different in Malaysia, where of course you do not have the American presence that there is in Thailand. Therefore the problem of identity is less serious than it is in Thailand. However, there is still a problem there as there is a big American presence in terms of the Peace Corps volunteers. In the kind of situation in which our people very often work, they sometimes have difficulty in having themselves considered as Canadian. But the problem, the confusion, is not as big as it is in Thailand.

Miss Taylor: I would like to add one more comment which I found interesting in dealing with the government agencies while a CUSO staff member. I found two or three people whom I considered quite key contacts in the Thai government express to me that they felt freer and easier in working with CUSO as an organization than they did, for example, with the Peace Corps, simply because we are not attached in any official way to the Canadian Government. So they did not feel there were any strings attached dealing with CUSO, whereas they did when they were dealing with the American Peace Corps—and with CIDA of course, because it is a government agency.

Senator Carter: Has the fact that Canada has recognized the People's Republic of China had any effect on Thailand and these other countries? Does that help to distinguish us from Americans, or has that fact not percolated over there yet?

Miss Taylor: I am not sure what has been going on in Thailand in the last six months, but I noticed in *Time* magazine that the Thais are now considering withdrawing their forces from Vietnam and they are making some overtures toward the People's Republic of China themselves, which surprised me a great deal, because I would not have thought that possible when I was working in Thailand. I really cannot make any further comment. I think it was noticed and it would be noticed. When I was there it would have been probably noticed somewhat negatively, but with these new developments I would say that the reaction would be more positive now.

The Chairman: I would like to put one further question to anyone on the panel, I have put it to other witnesses. Would you regard Vietnam as a Francophone country still?

Mr. Metivier: It is difficult for us to answer this question, because we have not been there recently. The experience we have in Cambodia, particularly in serving there, is that there would be a role for Canada to play in a Francophone program. In terms of Vietnam, only a few of our people have been passing through very briefly, and the impact of English as a language has been noticed very much. However, it would be difficult for us to come up with an opinion.

The Chairman: Perhaps we could end up with two general questions. Switching the subject entirely, what recommendations would CUSO make for the advancement of Asian and Pacific studies in Canada?

Foreign Affairs

Mr. Sallery: I think we should probably set up an institute to study the white Anglo-Saxon. There is no such institute in existance. I think Asians, Latin Americans and Africans are beginning to get a little bit suspicious of all the institutes that we set up to study them, and they would like to turn it around. There is a growing movement in the United States and in Canada for the university circles to become more interested and more involved in study programs involving Asia.

This is certainly true of the University of British Columbia. Victoria, and perhaps the centre for Developing Area Studies at McGill. I would hope to see more of what we call the partnership relationship, not just a centre in Canada which deals with Asians studies, but opportunities for bilateral exchange and financing from Canada to assist Asians to study the problems which they want to study. If I may go on from this, I would say one of the concerns which we expressed in our paper may also answer one senator's question about this. Perhaps we do appear as a group of people who run around and tell other countries what to do in terms of South Africa, Rhodesia and so on. However we do not very often give those other countries the opportunity to voice their opinions, and any opinions which we try to express are just an attempt "to relate to you what has been given to us". I know there are tremendous barriers in terms of inviting nationals from various host countries, Asians in this case, to appear before this committee, just as there were the same barriers in regard to West Indians appearing before the committee on the Caribbean. But I would hope that some effort might be made to involve Asians in this particular study.

The Chairman: We recognize this as one of our significant problems, Mr. Sallery. On the other hand—I do not need to make the case at length—we are trying to complete this study as economically as possible and as sensibly as possible.

Mr. Catmur: Mr. Chairman, it may be that the senators should volunteer for CUSO service.

The Chairman: I have had several volunteer for an inspection trip to the Far East, but none in such an active capacity, as you suggest.

Senator Carter: Coming back to page 5, which started all this argument, in paragraph 3, you say:

Short run political and commercial national interests have dictated for far too long our posture in the area, to the detriment of both Canadian corporations and the public at large

That implies that it has been harmful to Canadian corporations and the public. Can you give us an example of what you have in mind there?

Mr. Catmur: Mr. Chairman and senators, what I am dealing with here is really a tendency. For example, if a corporation, such as that which has gone into New Caledonia...

The Chairman: International Nickel Company.

Mr. Catmur: If that corporation is not extremely cautious on how it exploits those resources, and how it ploughs back capital into local projects, it will tend to gain for Canadian investors, in that little area of the globe, a bad reputation. That bad reputation will affect the trading relationship of other Canadian corporations that wish to go there.

For example, I was utterly amazed when I read through the Alcan brief, to note that this corporation is worried because producer countries which they used to get the metal from are now setting up their own processing and smelting plants. The Alcan representative before this committee actually said, "This is competition for us and it is very difficult for us to perform and indeed the Canadian Government has a responsibility to protect us from this kind of competition." Good heavens, if a corporation of that nature has not the intelligence to diversify its sources of supply and diversify its functions, it is not, in my estimation, deserving of any support.

Senator Carter: I thought you were talking about examples of what had taken place.

In your brief you say that this committee is over-preoccupied with Japanese-Canadian trade relations, and then, on page 7, you say:

In examining our relations with Japan, we often fail to take cognizance of the basis of Japan's startling and rapid growth. Japanese indigenous structures have formed the basis upon which the country has prospered. A striking example is the role of the Zaibatsu.

Would you elaborate on that, and tell us why and where we have been too much preoccupied with those relations?

Mr. Catmur: Mr. Chairman, I am delighted that Senator Carter has asked that question, because Mr. Sallery and I are in fundamental disagreement on the answer. Bob, you have first go at it. Then I will cut you to pieces.

Senator Choquette: I hope you are not suggesting that you are going to cut the salary.

Mr. Catmur: Oh, no!

Mr. Sallery: Senator Carter, my impressions from reading the 13 previous transcripts of testimony, and also from reading Gunnar Myrdal's very extensive work on Asia called Asian Drama, published in three volumes comprising some 3300 pages, was that he and his colleagues who worked with him did not concentrate on what was the economic base which led to Japan's very rapid industrial growth. I would not want to hold up Japan as a striking example of good corporate behaviour, or a country in which they do not have strikes, labor disputes and so on, but it seems to me that the Zaibatsu has offered some things which may be useful for other developing countries to consider at least and also something which Canada may want to consider. Very briefly, in Zaibatsu you have a situation in which the employees are paid, and are given virtual life security in the job. The salaries are based roughly 50 per cent on a guaranteed wage, and 50 per cent on profit-sharing. So that when you have the profits going down and the company not doing well then, of course, you have a reduction in the salaries of the people who work in the Zaibatsu. But you do not end up with the same kind of situation which we have in the west, where you have tremendous lay-offs and shutdowns. You do not end up with feather-bedding. They have succeeded, I think, in avoiding what has been called the 'Phillips'

curve, in which, if you have high employment, you also have inflation.

My argument is this I think it is worth pursuing, worth exploring the potential alternative modifications of what the Japanese have done through the Zaibatsu in terms of providing the very basic minimum security for people.

Senator Carter: May we have the counter-argument now?

Mr. Catmur: Mr. Chairman and Senator Carter, actually what you have just heard is a truly remarkable statement from one of our, shall I say, more radical staff members in CUSO. You have just heard a defence of a system which was created by the Zaibatsu. The word "Zaibatsu" itself means a financial clique, a plutocracy of extremely powerful Japanese families-Mitsubishi is an examplewho held enormous banking and corporate empires. They comprised, perhaps the original military-industrial complex and were profoundly influential in politics and the economy, but were always extremely responsible to their employees. They represent, in my estimation, a continuity in Japan between their feudal structures to their industrial structures. They carried on a kind of paternalistic relationship with their labourers which has proved most functional, and I think that that is the important point that really Bob Sallery and I are in complete agreement on. But I say that it is an inherent, cultural attribute of the Japanese to be able to organize and adapt in this way to meet new situations. It has been described in the past as, I believe, a situational ethic. Now, Bob is the world's optimist and he disagrees with me and says, "That is nonsense. Anybody can do it."

Mr. Sallery: I wish you would speak for yourself.

Mr. Catmur: Well, you did not put your argument, which is, "Anybody can do it; people can adapt their own structures to do this." But, you know, it is for just these reasons that I was critical of Professor Higgins. Structures which are built on what exists and which accommodate the people and their needs and their native ingenuity will last, whereas, structures that are imposed by us or by anybody else will not.

Senator Carter: I agree with that.

The Chairman: Mr. Catmur, Miss Taylor and gentlemen, and all other representatives of CUSO who are present, I hope you have found this meeting as interesting as have the members of the committee. I should imagine that it is not often that representatives of CUSO have a chance to hear senior man talking about his policies in such a frank fashion. Indeed, this may have been your first opportunity of hearing him express himself in such a way.

At the outset, Mr. Catmur, you said you were coming here with some trepidation, but let me assure you that any such sentiment was unwarranted.

Once again we are indebted to you and to CUSO for having the courage not only to set out your own position, but also to make some very good and intelligent remarks concerning the overall Canadian position.

Is it agreed that the CUSO brief be appended to these Proceedings?

Hon. Senators: Agreed.

(See Appendix "N")

The committee adjourned.

APPENDIX N

BRIET PRESENTED TO THE SENATE COMMITTEE ON FOREIGN AFFAIRS RESPECTING THE PACIFIC AREA BY CANADIAN UNIVERSITIES SERVICE OVERSEAS

INTRODUCTION

Canada's association with the rest of the world and in particular those non-industrialized countries which represent the majority of nations, be they commercial, political or developmental, must be conceived in global terms. In particular, Canada's relations with Asian countries, whose populations are such a significant proportion of the world's peoples are now, and will be of increasing importance to the extent that they may affect the totality of our international position.

It seems that the nature of many contacts between the West and the majority of mankind are fundamentally destructive, despite most efforts to the contrary. This is a result of the traditional policy, common to most countries of subordinating international interests to national vested interests.

CUSO is acutely conscious of the fact that the organization's place in these relationships is insignificant and perhaps peripheral to major policy considerations in the short run. However, in the long run, an increasing number of Canadians returning with overseas experience will move into positions of influence in government, industry and education.

CUSO itself has had to face the reality of the inherent tendency for any Western-based agency to exploit for its own benefit the very state of underdevelopment. Just as a mining concern may tend to exploit a country's natural resources, so some 'aid' agencies might tend to rejoice in the state of underdevelopment as providing an outlet for the enthusiasm and temporary ideological commitments of Canadians.

It is therefore, with a great deal of trepidation, that CUSO comes before the Senate Committee to try and draw some lessons from our observations for our own organization, the Canadian Government, Canadian Corporations and others involved in the area.

GENERAL TRENDS IN CUSO POLICY

In order to avoid the pitfalls of imposed solutions, the application of some irrelevant technologies, educational systems, industrial practices and health services and the perpetuation of some blatantly exploitative relationships, CUSO is seeking to emphasize a more responsive posture.

A DELIBERATE EFFORT IS BEING MADE TO SUBORDINATE THE ORGANIZATION'S DECISION-MAKING PROCESSES AND PRIORITIES TO THE NEEDS OF THE COUNTRIES IN WHICH WE ARE EMPLOYED AND TO ADOPT AN INTEGRATED APPROACH TO DEVELOPMENT.

This approach necessitates a <u>true partnership</u> reflecting the historical imbalance in the influence exercised by the people of Asia as opposed to that of the more fortunate and privileged Western peoples. This must imply the <u>paramountcy</u> of their interests.

In pursuit of this objective and in response to clear demands from host nations, CUSO has placed the highest priority on:

- the formation of local overseas advisory groups involving the nationals of the countries concerned;
- 2. the provision of counterpart training opportunities to ensure the replacement of CUSO workers by local people;
- 3. the provision of opportunities for training in third countries which will be more relevant, less expensive and will tend to develop local institutions;
- 4. the provision of material support to institutions, serving volunteers and their national colleagues;

5. informing the Canadian government and people about the present state of development, and the obstacles and barriers, some of which we knowingly or unknowingly contribute to, which inhibit sustained and mutually beneficial growth.

GENERAL OBSERVATIONS AND RECOMMENDATIONS:

Perhaps it seems presumptuous for CUSO, which is active in only three countries on the rim of your area of study, to offer general observations on the Pacific; there are several reasons for our doing so.

Reading the testimony of your first 13 sets of witnesses, and having inquired about what other witnesses may follow, we feel your Committee may conclude its hearings without learning much about what Asians themselves think of the subject. Small though our Asian program is, it nevertheless musters the largest single group of Canadians in the region. The fact that CUSO personnel work as employees of Asian governments gives us something of an obligation to put to the Committee some of the views of the people there, if they themselves are not to have a hearing. Infinitely preferable would be their own presence before this Committee!

A factual summary of our involvement in the Pacific Area will be found in the last portion of this brief.

As a result of our experience and observations in Thailand, Malaysia,
Papua-New Guinea and elsewhere, we have concluded that:

1. local people must fully participate in the determination of priorities, and in the planning of the relationships between Canada and the Pacific countries.

- 2. Canada is one of the few countries perhaps uniquely able to prod the West into more of a partnership role in the effort of reconstruction and assistance in Indo-China. (Canada has a comparatively "clean" record in Asia so far, having been neither a colonial power nor an active participant in the Indo-China war.)
- 3. Canada should look upon its relations with the Pacific in terms of a partnership aimed at achieving permanent, constructive, change and development. Short run political and commercial national interests have dictated for far too long our posture in the area, to the detriment of both Canadian corporations and the public at large.
- 4. Trade cannot be divorced from other aspects of development. Development must encompass the whole geographic area, and it must also combine the elements of partnership, for example: A healthy set of interregional and external trading relationships, adequate exchange reserves and a consultative structure for development assistance.
- 5. Canada must adopt a visibly independent policy position in this area while there is still time to reverse the present tendency to confuse Canada's position with that of the United States. If Canada is to become associated with the policies of any country external to the region, it should be with nations such as the Scandinavian countries, New Zealand, etc. A position of neutrality on major issues will not suffice, in particular, our fetish for taking no position is interpreted in South East Asia as condoning the war in Indo-China which will not, in our view, be condusive to Canada's own long range commercial and political interests.

(We will be voicing a similar argument in a forthcoming brief on the South African situation.)

FACTORS INHIBITING A CONSTRUCTIVE CANADIAN ROLE IN THE PACIFIC:

It has also appeared to us that there are significant obstacles presently mitigating against an effective and constructive Canadian presence in the area. It would be useful to discuss some of these and pose specific suggestions as to how these obstructions might be obviated.

Mr. Rudolph Peterson, a former President of the Bank of America and later Chairman of the Presidential Task Force that re-vamped U.S. foreign assistance so drastically, wrote the following in "California Business Magazine" in September-October 1968:

"When I speak of the Pacific Rim, I am putting the broadest possible construction on the term — the western coasts of South America, Central America, and our own continent, and extending beyond Australia and the Far East to India. There is no more vast or rich area for resource development or trade growth in the world today than this immense region, and it is virtually our own front yard... I emphasize that this is a largely underdeveloped area, yet an area rich in an immense variety of resources and potential capabilities. Were We California businessmen to play a more dynamic role in helping trade development in the Pacific Rim, we would have giant, hungry new markets for our products and vast new profits for our firms."

These remarks reflect a distinctly exploitative and proprietory attitude towards the area which could scarcely be expected to form the basis of a healthy and mutually beneficial relationship.

This Pacific Rim philosophy is by no means confined to United

States and, in fact, many Canadian businessmen would concur with the analysis.

A startling and alarming parallel is beginning to emerge between the

Caribbean and some parts of the Pacific region with regard to the debilitating

effects of foreign investment, including Canadian. For example, the development

of tourism, land-speculation and primary resource exploitation about which

this Committee is already informed. Coupled to this is the net export of

scarce, trained and skilled manpower to North America.

The preoccupation of this Committee with Japanese-Canadian trade relations demonstrates the myopic and short-term view which we tend to cast

over this most significant region. The terms of international trade are such as to dictate that the rich trade only with the rich while the majority of mankind sits outside the fence in ever-increasing numbers and ferment. This acute imbalance of trade will inevitably have serious effects far exceeding those associated with Canada's own unhealthy dependence on United States' capital and trade.

In examining our relations with Japan, we often fail to take cognizance of the basis of Japan's startling and rapid growth. Japanese indigenous structures have formed the basis upon which the country has prospered. A striking example is the role of the Zaibatsu.

The lesson to be learned here is that externally imposed solutions seldom prove to be functional and stand the test of time.

SPECIFIC RECOMMENDATIONS:

In order to avoid the attitudes and difficulties mentioned, it is essential that Canada focus its efforts specifically as follows:

- 1) Canada should support the strengthening of local and regional structures and institutions in these categories:
 - educational
 - financial
 - political
 - developmental
 - agricultural
 - industrial
 - commercial
 - cultural

In this conne ion, it must be remembered that the best structures and institutions are those which service directly local needs maximizing the application and utilization of local talent, experience and methods.

2) Canada should initiate immediate discussions and negotiations to resolve the current imbalance in international trade and unfavourable terms of trade facing practically every country in the region.

These are a function of a serious international monetary malady. Various mechanisms have been suggested to resolve, at least partially, this problem. The recent provision of Special Drawing Rights in the International Monetary Fund is a case in point.

Canada should initiate negotiations to assure the utilization of future allocations of Special Drawing

Rights to the alleviation of chronic shortages
and deficits of convertable international reserves
in less developed countries.

A failure on the part of industrialized countries to resolve this international liquidity problem will result in the most appalling economic deprivation and inevitable political instability.

- 3) The immediate expansion of third country training opportunities should be undertaken immediately.

 The assumption of the relevance of Western based training should also be critically re-examined.
- 4) In view of the high densities and rates of increase of population in the area, Canada should treat as an urgent priority any requests for assistance in family planning.
- 5) Canada should dissassociate itself from any possible complicity in the Vietnam war. This would necessitate a re-examination of the Defense-Sharing Agreement, Canada's position on the International Control Commission, and the reconciliation of our public pronouncements and actions. This is necessary if Canada is to improve her independent credibility in the region with a view to the normalization of her relations with the countries concerned on a basis of recognized sovereignty and mutual respect.

6. Canada should be willing to respond immediately to requests for assistance in the reconstruction of those countries affected by the Indo-China war.

COUNTRY REPORTS

THAILAND

The CUSO Thailand programme is five years old; two years older than the Canadian Embassy there. The programme began with a group of five teachers in 1966, but the number of volunteers increased considerably in 1967 and 1968, and a wide variety of professional fields were represented. Upon the appointment of a full-time staff in 1968, there was opportunity to re-evaluate the Thai/CUSO programme and requests were filled in certain concentrated areas where a volunteer's effect would be multiplied and where CUSO felt it could develop particular expertise. These areas included Teacher Training College placements, technical education, and a few agricultural postings.

Further concentration in education took place in 1969 when the largest group of volunteers were sent, most of them in education, and particularly in the field of Teaching English as a Second Language. English is a foreign language in Thailand, most business and government affairs being conducted in Thai which has its own script. However, Thai students must learn English in order to complete any education at the higher levels, as the only available texts are in English. CUSO responded to requests from secondary, teacher training and university institutions in this urgent area. As well, experimental placements were made in computer science, social science research, medicine and agriculture. With the experience gained from having full-time staff and volunteers both working and living with Thai people and learning to function in the Thai language, CUSO began to be able to define its priorities on the basis of careful analysis of the manpower resources available both from Thai and other foreign sources. New directions for the programme seemed to be

emerging where other agencies had not been previously involved.

The new areas involve co-operatives management at the local level, journalism, educational broadcasting, experienced engineers for training institutions, and agriculturists. But we have had difficulty in recruiting more than a few agriculturalists and other specialists. This year we have placed nineteen(19) people and hope to recruit sufficient highly-specialized candidates to fill five other posts in Thailand. Priority is still being given mainly to education, but with a shift towards the less urbanized areas in an effort to help narrow the gaps of class, income and opportunity, and increase participation of ordinary people. To date in 1971 we have filled requests to teach English as a Second Language at rural teachers' colleges and some more isolated secondary schools.

In filling the specific requests we receive through the Thai government, there are two basic general principles we have come to feel are vital to any effort which claims to be developmental. The first we call an integrated approach to involvement, in any programme, which means we do not limit ourselves only to the sending of volunteers but search out other needs associated with any project. For example, in addition to sending volunteers to teacher training colleges, we have provided four scholarships for up-country teachers to attend intensive in-service training courses at the English Language Centre in Bangkok, where we maintain at least one CUSO volunteer. In turn, to the English Language Centre itself, we have given two scholarships for Thai English teachers to attend a special four-month program at the Regional Language Centre in Singapore. One of our linguistics people will be visiting them while they are studying there. We have provided material support to the Centre and subsidized

a brief workshop where CUSO volunteers and Thai colleagues from a teacher's college in the Northeast experimented with a new teaching approach developed by one of the colleges.

The second principle we feel strongly about is that volunteers and host country nationals should have a definite role in planning directions for the CUSO programme. In Thailand there is an operative committee composed of volunteers; there will soon be a similar committee composed of Thai people to advise on CUSO programming and policies. In October 1971 there will be a regional meeting in Bangkok when a representative group of Asians from the countries we work in and a representative group of CUSO volunteers will meet and discuss the areas and ways in which our type of programme can alter to fit the changing needs of the countries for which we work.

TERRITORY OF PAPUA AND NEW GUINEA

CUSO sent 9 volunteers to TPNG in September 1970, four years after the initial requests from the Territory had been received. Two exploratory trips by three staff members to Canberra and the Territory had taken place, in 1969 and again in February 1970. The latter visit was received well by Territory officials, including Australians and Papuans and New Guineans and the findings were presented to the CUSO Executive Board in May 1970 for action. A determining factor in CUSO's acceptance of the Territory's invitation was the positive response from these parties. There had been some hesitation on CUSO's part to start a program in a territory still under a form of colonial administration where even a date for internal self government had not yet been announced.

CUSO decided to focus its initial input of personnel in areas of maximum multiplier effect. These comprised teacher-training, technical and secondary schools, (7 volunteers); and one CUSO worker each in local government council (organization of projects involving housing and market facilities) and the government cooperatives which encourage and train small business enterprises by locals.

The needs of the Territory are manifold, owing to its demography, the number of languages extant (over 700 distinct languages are spoken by some 2.2 million inhabitants) and rough terrain which makes communication other than by air impossible for many areas. In addition to the continental island divided between Indonesia, West Irian and Papua-New Guinea, there are the islands of the Bismarck Archipelago, Buka and Bougainville in the Solomons, as well as some 500 smaller islands comprising the area.

Future CUSO programming in the area will take careful account of the priorities of the Papuans and New Guineans. In these years before self government, these priorities are being expressed by local officials at the House of Assembly

meetings and also the indigenous institutions working in the field of development, such as the University of Papua-New Guinea, the Papua Medical College, etc. Adult literacy programmes need urgent support if these people are to be politically aware as well as technologically skilled, and prepared for independence within this decade. This is a field where Canada and CUSO can make a substantial contribution.

MALAYSIA

(a) Sarawak

CUSO began to send teachers to Sarawak in 1961 when it was still part of the British Empire and before the Federation of Malaysia was formed. These volunteers were mostly arts and science teachers at junior and secondary school level. In 1967 we began to send volunteers to Sabah and West Malaysia as well. In 1968, we appointed our first field staff officer to Sarawak, and in 1969 we placed a Field staff officer in Kuala Lumpur to coordinate the CUSO Malaysia programme. Separate field offices were established in Sarawak and Sabah last summer. The Sarawak government is planning to phase out all foreign volunteers by 1974, and has over the last two years been reducing its requests to CUSO. This year we received only a few requests in the field of education. Since local teachers are available, and other foreign volunteers services remain in Sarawak, we feel that we should rather concentrate our efforts in Sabah and West Malaysia. Therefore we are not sending volunteers to Sarawak this year.

(b) Sabah

The first volunteers in Sabah in 1967 were mostly teachers of arts and science. Since a field staff officer was appointed last year, we have been presented with a range of requests in diversified fields, including forestry and specialized technical positions. The trend in requests for the Sabah programme, is for the provision of experienced, highly specialized personnel: in education they only now require experienced and trained teachers. Other requests in fields such as forestry and Computer programming are increasing and we foresee the Sabah programme becoming quite diversified. To tie in more closely with the Sabah government's priorities we are trying to respond to requests on a year-round basis by sending volunteers

over in small groups rather than in a single annual placement.

(c) West Malaysia

In 1968, CUSO sent a small group of six volunteers to teaching assignments in West Malaysia. Since then, the West Malaysia programme has remained small in numbers but since 1969, when a field staff officer was appointed to the area, the requests have been of an increasingly highly-specialized nature. For 1971, most high priority requests have been in the fields of forestry, technical education and agriculture. In particular, MARDI (Malaysia Agriculture Research Development Institute), has requested from CUSO five experienced agriculturalists.

As with the CUSO programme in Sabah, we are attempting to send our volunteers on a year-round basis.

ORIENTATION PROGRAMME

We have found that orientation programmes are essential for young Canadians going to work in overseas situations where values, social structures and professional conditions are so different. We therefore provide all our personnel with a training programme of approximately 2 months. The first part is a Canadian orientation of about 10 days where the outgoing volunteers are introduced to the country or area where they are to go, to the issues of international development and to CUSO, through a wide variety of resource materials and people. Then overseas in their country of assignment, volunteers continue their training for 6 to 8 weeks, with the main emphasis on language, professional training and culture and characteristics of the country. This initial training program is only the first part of a continuing learning process that we try to support throughout the two years of overseas service by in-country seminars, various contacts and circulation of relevant materials of a professional, social, cultural or political nature. By this we hope to help our personnel develop a deep understanding of their country of assignment and thereby make the fullest possible contribution.

AREAS OF INTEREST

INDONESIA

With a new concentration upon Indonesia, CIDA has recently acknowledged the tremendous potential of this country of 112 million people, as well as recognising its difficult development problems. One of its most serious problems is unemployment, and in this respect Indonesia may be compared to India. Therefore, its government is very cautious about inviting foreign volunteers, as a large influx could merely exacerbate this problem of unemployment both among young educated people and all Indonesians.

Over the last few years, the government has very carefully determined which areas lack local trained personnel, and which could benefit from outside contributions. During visits of CUSO officers to Indonesia in 1961, 1966 and three times in the past three years, the Indonesian government has shown interest in a possible CUSO contribution, especially in the field of English teaching at the teacher training level.

We in CUSO have been interested in collaborating with the Indonesian domestic volunteer programme. The Indonesian programme, known as BUTSI, has since 1967 been sending volunteers to projects in agriculture and community development; and CUSO officers have had preliminary talks about BUTSI's work with Jakarta officials; these talks have led to interest in the possibility of attaching some Canadian volunteers to BUTSI. Such close collaboration between CUSO and the Indonesian government would offer an exciting opportunity to explore new avenues of international development cooperation.

INDOCHINA

As a francophone island in an anglophone Asia, Indochina can rely on very few sources of supply for expatriate personnel. France has therefore been playing a leading role but there are indications that this contribution in recent years has been insufficient to meet the needs of the area. Therefore Laos, Vietnam and Cambodia have turned more and more towards Canada; but the Canadian response has been quite timid. This timidity is particularly regrettable, considering the different problems now facing the area.

CAMBODIA

In June 1969, the director of the Asian Programmes visited Cambodia and made contacts, particularly at the ministry of Education and ministry of National planning. The government of Cambodia was looking for teachers in the field of maths and science and discussed this need with CUSO. During a follow-up visit in February 1970, a verbal agreement was reached and written confirmation was to be exchanged after approval by the CUSO Board of directors. Unfortunately the change in government in March 1970 in Cambodia made it necessary to leave this issue pending until the overall safety situation in Cambodia improves, at which time we would be very interested in renegotiating with the Cambodia government.

LAOS - VIETNAM:

Similarily, should it become feasible for CUSO to respond to some of the requests already received from Laos and Vietnam, which have come from the private and mission sectors, we would consider these very seriously.

In its Policy paper on the Pacific, Canada indicates its desire to support reconstruction efforts in Indochina after the situation settles down. CUSO would like to indicate at this point its willingness to look at the possibility of joining

efforts with CIDA on reconstruction projects as well as giving high priority to responding to requests of a more general nature from these countries, of course including both North and South Vietnam.

SOUTH PACIFIC

Requests have come to CUSO from officials in some of the South Pacific islands, including the British Solomon Islands Protectorate, New Hebrides and Fiji.

After visiting Papua-New Guinea in 1970 CUSO staff made contact briefly with these officials. Through subsequent correspondence it was confirmed that viable jobs for future CUSO volunteers exist and these early contacts would be followed-up as soon as the programme in TPNG was evaluated.

The <u>B.S.I.P.</u> invited the Peace Corps in 1970 to send personnel, and decided to wait a year before asking another group into the Protectorate. But there was interest in maintaining contact and inviting CUSO to work in the fields of health and education. The WHO has a malaria campaign which needs public-health teachers who will work with para-professionals in developing competency as well as commitment to the task of eradication. The smaller islands are ideal places to eliminate the infection since they are fairly isolated and total elimination of the anopholes mosquito is possible.

The Condominium Government of the New Hebrides, administered jointly by France and Great Britain, is eager to receive Canadians because of the bi-lingual and bi-cultural input this country can offer. Problems of land tenure have been especially severe since the arrival of North American land subdividers from Hawaii. Here too, language is a barrier to communication. In addition to the French and English spoken by the officials of the islands, some 200 different local languages are spoken by a population of 75,000 in the 73 islands which are spread over 450 miles of the South Pacific. The exodus of men of working age, i.e. from 15 to 30, to the New Caledonian mines has turned many areas into a remittance society, i.e. those people left of women, children and old men to subsist on cash sent home by their migrant menfolk. Population pressures exacerbated by land speculation underline the need to develop fisheries and the

forestry industry as well as land-tenure research. CUSO-SUCO with its recruitment of bi-lingual Canadians, can make a contribution here. Canada can help indigenous solutions of these issues by strengthening the South Pacific Commission's research funds and abilities.

<u>Fiji</u> is the locus in the South Pacific for the University which trains indigenous personnel from the area to go back to their home islands and perform middle-and-higher-level manpower and leadership tasks. CUSO has been asked to fill some staff positions, as well as education and welfare jobs sponsored by government agencies. Fiji with many people of East Indian ancestry has supplied middle-level manpower to other islands, sometimes to the chagrin of the recipients. However population density here, as in the Caribbean, prompts Fijians to emmigrate.

There is need for investigation of other local employment opportunities such as fisheries, if more skilled Fijians are to be persuaded to stay at home.

Here the University of the South Pacific could develop relevant programs, with assistance from the South Pacific Commission.

 See "Model for a Musical", by John Griffin. In New Guinea, January 1971, vol. 5 pps 11-25. CHINA

China is bound to play a leading role in South East Asia in the years immediately ahead. If CUSO were to receive a request to provide some personnel, we would treat it as a matter of the highest priority.

Appendix A

BRIEF ON CANADA AND THE SOUTH PACIFIC BY C.U.S.O.

Some thoughts on the South Pacific Area.

The needs of the Pacific Island Territories, from New Guinea eastward have seen common elements, but also major differences as their level of economic development varies. Manpower is the field in which CUSO has worked most closely. All the Pacific island territories (except New Guinea) have high rates of basic literacy. but relatively low rates of highly trained manpower. All (including New Guinea) are rapidly expanding their educational systems at the secondary and tertiary levels, and are engaged in indigenising their technical services. In fields like medicine, where the Suva Medical School and later the Papuan Medical College have long been operating, the countries are near self-sufficiency for general medical practice, but specialists of various kinds are still needed. In education there is an approximate balance between the production of primary school teachers and needs; secondary school teachers are still needed from overseas for some subjects in New Guinea, although there is a closer balance between needs and local production in other territories; for tertiary and technical education, and for research there is great need for overseas personnel--but even more for personnel that will transmit skills and train the local people that will replace them in five years or so.

Perhaps the most glaring lacks are those skills which are most taken for granted in our own society--skilled mechanics, book-keepers, surveyors, radio operators, telephone linesmen, etc. Again what is needed is overseas workers who are prepared, and who are able, to train local adults in those skills--often adults with intelligence but without the formal schooling that we tend to think essential for such jobs.

For most of these positions a permanent expatriate is both over-trained and too expensive for societies where the basic wage rate is little more than a dollar a day. Training of islanders overseas would make them overtrained too. The gesture of Canadian aid to the University of the South Pacific, particularly in the field of marine biological research, is welcome, as is the promised increase in scholarships and academic exchanges with Canada. Strengthening of programmes where Canadian volunteers can help fill some of the urgent manpower needs, on a temporary basis until indigenes can fill them themselves, is not only one of the most effective, but also among the least expensive ways that Canada can help developing territories along lines that they themselves desire. It is, of course, the major rationale for CUSO.

South Pacific Commission

In view of Canada's advanced technology, its wealth of scientific knowledge, and its bilingualism, it is to be regretted that the Foreign Policy Review makes no mention of the South Pacific Commission as a Regional Institution. It has, over its life of more than 20 years, been increasingly respected in the South Pacific as an inter-territory forum for the discussion of common problems, and as an agency for co-ordinating research. Its woefully small financing (even though France, the United Kingdom, Australia, and the United States are members) could be given a major boostif Canada were to become an Associate member, contributing funds and expertpersonnel. With its centre at Neumea in New Caledonia, bilingual experts would be more than welcome. Provided through such a multilateral agency, Canadian aid would be seen to be clearly disinterested. Canadian know how in geological and mining problems, in livestock farming, and in forestry could well be made available through such an agency, to complement the assistance with fisheries promised through the University of the South Pacific, and the

expertise on airports and the tourist industry being exported commercially.

Stable Prices and Markets

But if the island territories present a hopeful picture in terms of how a little Canadian aid could go a long way to help in existing manpower and research activities, economically the islands present a major problem. With the exception of New Guinea all are small islands with dense populations, and even in areas of New Guinea the population density reaches 1000 per square mile. All are currently dependent on the export of primary tropical crops -- copra (dried coconut meat), coffee, cocoa, sugar, bananas, a little tea, rubber and some palm oil - with only mining and tourism as likely future possibilities. The amounts of these products involved are minute in proportion to the world markets in these commodities, and thus the economies of the small islands are all marginal ones, their prosperity swinging wildly in response to small changes in the crops in Brazil. Ghana, Malaya, Australia etc. Guaranteed markets at stable prices for these products have been provided by Australia, New Zealand, and to a larger extent by France and the U.K. But the Australian and New Zealand markets have been virtually saturated (Australia now takes only a small portion of the New Guinea cocoa crop, and has cut its ties with the Fiji sugar industry; New Zealand banana imports from Fiji and Samoa have stabilised at a low level) while the impending Common Market negotiations leave a large question-mark over the future of the guaranteed market in Europe. A generous gesture by Canada assuring an absolutely small, but in significance a large, market for specific tropical products -perhaps on a barter basis for Canadian wheat, or butter -- would go a long way towards providing economic stability for all the islands.

It is not as though Canada has a negative balance of trade with these countries.

By virtue of the mining industries and exploration under way in New Guinea

(Particularly Placer, Rio Tinto Group,), New Caledonia (Inco), British Solomon Islands Protectorate (also Inco), Fiji (the tourist industry) and elsewhere, considerable Canadian machinery exports are being made, dividends are being returned to Canada, and a significant Canadian investment is being built up in the area. The benefits to the local people of such extractive industries, expecially when they are not locally owned, are not as clear-cut as the figures of sums invested might suggest. We in Canada have become painfully aware of the effects of selling our resources too cheaply to other countries, for them to process; we, above all other countries, should be aware of the desire of primary producers to trade on an equal basis. We should accept some of their limited products.

Canada's Special Position

In this field, in the South Pacific, Canada has an enviable reputation. As a middle-range power, with the envied knowledge of the former administrators, but without the tarnish of obvious direct gain, or a history of exploitation, our support to these small nations could be decisive. Its cost to Canada would be small; its results could be dramatic. One ship regularly transporting island products to Canada on a subsidised basis and carrying Canadians and Canadian products to the islands and between the islands could contribute as much to Pacific Island development in the 1970's as subsidised Canadian shipping did to Caribbean development in the 1950's.

The fact that none of these measures are mentioned in the White Paper is, perhaps an indication of the comparative ignorance of the Pacific world throughout Canada. Of almost as much importance, if Canadian foreign policy is to be responding to local events in the Pacific is to create a greater fund of knowledge of the area within Canada. The pools of knowledge that are available -- individual scholars from Victoria in the West to St. John's in the East, with a few concen-

trations in between -- are rarely brought together, or utilized (except on rare occasions such as this). It is to be hoped that the Canadian International Development Research Centre may channel more funds so that Canadian knowledge of developing countries may be increased and better utilised, so that Canadian technological know-how will not be misapplied there. Of critical importance in the Pacific context is the impending Pacific Science Congress in Vancouver in 1975; planning for it is already under way, and Government support is essential if it is to be a success both for Canada and for the people of the Pacific area.

Canada has an important role as a Pacific country; it has much to gain -- but also much to give. We hope this brief, in stressing what can be given, will serve to counterbalance the stress on what Canada stands to gain, to be found in earlier briefs.

ASIA CUSO PERSONNEL

IN EACH COUNTRY EACH YEAR

(In October of each year)

Appendix I

		,	,								
COUNTRY	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	TOTAL VOLUNTEERS HAVING SERVED IN EACH COUNTRY
BRUNEI	_	1	1	-	within	_	4	5	1	-	6
CEYLON	3	5	2	-	-	-	-		-	-	5
INDIA	8	22	30	31	33	42	50	38	12	24	185
JAPAN	-	1	2	-	-	-	-	_	-	-	2
PAPUA/NEW GUINEA	-	-	-	-	-	-	-	_	-	9	9
SABAH	_	_	-	-	-	-	4	22	18	16	39
SARAWAK	2	6	6	8	22	26	18	18	10	10	86
SINGAPORE	-	1	-	-	-	-	5	5	-	-	6
THAILAND	-	-	_	-	-	5	12	20	40	43	79
VIETNAM	-	-	_	1	-	-	-	-	-	-	1
WEST MALAYSIA	pud .	tue!	-	-	-	-	-	6	11	12	18
TOTAL	13	36	41	40	55	73	93	114	92	114	

ASIA CUSO PERSONNEL

Appendix II

(In October of each year)

J	1961	1962	1963	1964	1965	1.966	1967	1968	1.969	1970	TOTAL
EDUCATION	8	13	7	21	23	30	32	49	28	45	256
HEALTH	3	4	4	2	7	7	23	10	8	16	8rt
TECHNICAL	2	2	2		2	1	5	14	6	6	30
SOCIAL/YOUTH/ COMMUNITY WORK					2						2
AGGIES & H. DC.	1	1	4	5	2	6	3	1	4	8	25
OTHER	1	4	2		1	1	3	1	5	9	27

TOTAL 15 24 19 28 37 45 66 65 51 84









THIRD SESSION—TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, Deputy Chairman

No. 16

TUESDAY, MAY 4, 1971

Respecting

THE PACIFIC AREA

(Witnesses:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman
and

The Honourable Senators:

Belisle Macnaughton Cameron McElman Carter McLean Choquette McNamara Connolly (Ottawa West) Nichol Croll O'Leary Eudes Quart Fergusson Rattenbury Gouin Robichaud Haig Sparrow Lafond Sullivan Laird White Yuzyk—(30).

Lang Yuzyk—(30). Ex Officio Members: Flynn and Martin

(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, is such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—Resolved in the affirmative.

Robert Fortier, Clerk of the Senate.

Minutes of Proceedings

Tuesday, May 4, 1971. (18)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3:00 p.m. this day.

Present: The Honourable Senators Belisle, Cameron, Carter, Connolly (Ottawa West), Fergusson, Grosart (Deputy Chairman), Haig, Lafond, Macnaughton, McElman, McLean, McNamara, Robichaud, White and Yuzyk—(15).

Present, but not of the Committee: The Honourable Senator Smith.

In attendance: Mr. Peter Dobell, Parliamentary Centre for Foreign Affairs and Foreign Trade.

The Committee continued its study of the Pacific Area.

WITNESSES:

Canadian International Development Agency;

Mr. Fergus Chambers, Director General of Planning; and

Mr. Rick Ward, Desk Officer, Asia Area.

Agreed: That the brief entitled "Canadian Assistance Programs in the Pacific", prepared for the information of the Committee, be annexed to these Proceedings (See Appendix "O").

Agreed: That the witness supply additional information for the Committee; such information to be annexed to these Proceedings (See Appendix "P").

At 4:43 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, May 4, 1971

The Standing Senate Committee on Foreign Affairs met this day at 3:00 p.m.

Senator Allister Grosart (Deputy Chairman) in the Chair.

The Deputy Chairman: Honourable senators, we have a quorum, in spite of the fact that there are two other committee meetings in progress at the moment.

I regret to say that Senator Aird, the chairman of this committee, is not with us today. His father has had another stroke, which keeps him in Toronto. He has asked me, as deputy chairman, to act in his place.

Our special guest and witness today is Mr. Fergus Chambers, who is the Director-General of the Planning Division of the Canadian International Development Agency.

Mr. Chambers has been with CIDA for about three and a half years. He is an economist by profession. He was previously the chief economist with the Export Development Corporation, and prior to that was an economist with the Bank of Nova Scotia. He has had wide experience in this field. I am sure honourable senators will have many questions to ask him.

He has informed me that his remarks will be brief to allow as much time as possible for questions on this important Canadian activity in the area which we are studying, the Pacific rim.

Honourable senators will, I am sure, be aware of President Nixon's foreign assistance message to the Congress of April 21 in which he emphasized the reform of the United States' bilateral assistance programme.

In this Committee we have had witnesses before from CIDA. We have been interested in the progress of CIDA, the development and policies under Mr. Maurice Strong and the continuing development since he left to take over his important job in Stockholm.

Without any further comment, honourable senators, it is a pleasure to introduce Mr. Fergus Chambers, the Director-General of the Planning Division of CIDA. At the conclusion of Mr. Fergus Chambers' statement, I will ask Senator Cameron to lead the questioning.

Mr. Fergus J. Chambers, Director-General, Planning Division, Canadian International Development Agency: Thank you very much Mr. Chairman. Honourable senators, as the Chairman has indicated, I intend to be quite brief on my comments because I think, perhaps, our time

would be more usefully spent in directing ourselves to questions which you may have.

Very briefly, our program in Southeast Asia is, I think, one of our more recent areas of what you might call emphasis, although the program in Malaysia does go back to very near the beginning of our aid activities under the original Colombo Plan.

The other countries in the Pacific rim area have become eligible for Canadian assistance largely as they became members in the Colombo Plan group of nations, throughout the latter part of the 1950s and early 1960s. All through this period the programs in all the countries, except for Malaysia, were of a relatively minor nature and, to a large extent, this is still true.

The programs have been very heavily oriented towards technical assistance, provision of teachers, advisers for particular purposes and, in particular, the training of students in Canada. This is true of Thailand, the three Indochina states, the Philippines and, up until recently, Indonesia.

The program in Malaysia has been very heavily oriented towards technical assistance as well, although from time to time we have provided some substantial capital assistance for projects in the fields of education and telecommunications.

More recently there have been a number of changes in the emphasis of our program in the area, partly as a result of the recent completion of the foreign policy review. I might mention two of these in particular. The first is the decision to develop a somewhat larger program in Indonesia. The program there now has evolved out of its essentially modest technical assistance nature, into one in which we feel there will be substantial capital projects, certain kinds of basic commodity balance of payments support as well as a growing technical assistance program This decision was made for a number of reasons, one being the growing importance of Indonesia in the area, and as a potential Canadian market, although their balance of payments at the moment is such that they are not likely to be able to pay much in the way of cash for exports for some time. The second reason was that there has been a remarkable change in the economic policies and the strategy of development of the Indonesia government. There is an entirely new group of people in office in Indonesia under the present government and they are, I must say from personal experience, a very impressive group who are managing, outlining and setting up the development of Indonesia in a very admirable way. There is, therefore, a very good program of development in Indonesia within which the Canadian assistance program can be integrated and coordinated.

The other area, which I suspect may be of some interest to you, is our program toward the Indochina states. This is basically at the moment a holding program. We provide sufficient assistance, particularly in South Vietnam, to maintain certain public health programs, some rehabilitation programs in the medical field and the social welfare field, some housing and have a fairly significant training program in Canada.

The relatively small amount of money which we spend in there does not, I think, reflect the importance which would ultimately be attached to that area in our program. It reflects, really, the difficulty of operating in Indochina. It is very difficult to put people in the area to carry out projects and there is not much point in setting up funds which cannot be utilized right at the moment.

We are participating in discussions, under the auspices of the World Bank, about the long-run potential of what is called the Mekong Valley. This is a scheme which is still in its very early stages of definition. It could be a very large scheme and we have agreed to participate in very preliminary studies to identify projects and programs which will prepare the way for a major program when the social and military conditions in the area permit.

The programs in the rest of the area, I think, are of a relatively modest nature. I might mention Malaysia, where we have had a large program for some time. Malaysia, as I think you have heard from previous witnesses, is a relatively well-off country. For this reason, we view it as a sort of semi-developed area, and therefore, our program is designed to provide them with technical assistance in fields in which they still do not have their own expertise. But assuming the Malaysian economy continues to develop as it has in the past three or four years, toward the end of this decade, I would think they would be almost ready to be on their own, at least as far as concessional development assistance financing is concerned.

The program in the Philippines is a very modest training program, basically in the medical field, although we will probably try to restructure that into a different field in the near future, since the Philippines has a very adequate supply of medical personnel and, in fact, it is one of their largest exports to North America. So we shall probably try to develop training programs in fields of more importance to them.

We have, also, in the last couple of years, initiated a very modest program in the South Pacific islands, the main part of which is technical assistance in the University of the South Pacific.

The Thailand program has been heavily oriented to technical assistance, mainly education, with some forestry resource projects. We have had, for reasons which I do not quite understand, some difficulty in developing projects in Thailand. Up until recently, the government of Thailand has had very ample foreign exchange reserves of their own and they have preferred to operate quite independently of aid, other than for certain technical assistance and training programs. This may change in the future, but I do not know.

The only other country of the Pacific Rim in which we are involved at all is Korea. We have a very minor regular technical assistance program there, and in addition to that program, about two years ago we supported a project that was basically the provision of several hundred cattle under a development loan. That project, I think, has, in spite of some early difficulties, turned out to be very successful and we have been approached by the Koreans for further assistance in that particular field. But that is the extent of our programs in those areas.

Mr. Chairman, I do not think there is much more thant I can say in describing what we are doing in the area, and perhaps I should now endeavour to answer your questions.

The Deputy Chairman: Mr. Chambers, this is the first time we have had the Chief of the Planning Division before us. This committee has always been interested in the planning methodology of CIDA. I wonder if you would just fill out your remarks by telling us how you do this planning—how do you decide that such and such a percentage of the total CIDA program will go into a specific area such as the Pacific Rim, how do you decide to initiate a specific project or program in any of these countries, and how do you coordinate what CIDA is doing in these countries with other bilateral aid programs and the multilateral ones? Give us a general picture of the planning, because the Planning Division, as I understand it, is a fairly new approach dictated by certain necessities in the history of the program.

Mr. Chambers: That is a very substantial question. Sometimes I wonder how the planning process takes place myself, but I think we have made some progress over the past two or three years—at least I hope we have—since I have been primarily in charge of the Planning Division.

I think, essentially, it has two functions which you have actually specified yourself. The first function of the Planning Division is what I would call the allocations function. The total aid vote, which is approved by Parliament, of course, has to cover not only the bilateral programs for countries, but multilateral programs and certain other bilateral programs which are independent of my own division. I could very briefly mention these. The multilateral programs, as I think you are probably all aware, are contributions to United Nations agencies, to regional banks and other regional institutions. Some of these contributions are made through advances which are in the estimates of the Department of Finance, and not of CIDA. The other bilateral pograms which must be covered are special programs which are assistance to Canadian voluntary agencies working in the developing countries; business and industry, which is a new program to try and encourage the transfer of private funds; and a small amount for international emergency relief. The International Development Research Centre is another major program which must be financed out of this.

The particular amounts that are required to meet these needs are fairly well determined in international discussions and negotiations and are, therefore, as it were, fairly well given.

What I call a main bilateral programme has the responsibility for taking the funds which are left over, as it were, although I do not want to give the idea they are purely residual because they amount to 70 or 75 per cent of our program. The bilateral program last year was very close to \$300 million. The Planning Division is primarily responsible for allocating these funds among the various countries.

The allocations process is an extremely unscientific one, although conceptually there are various factors you can take into account. In the chapter on development assistance in the foreign policy review a series of criteria for allocations was set out. These criteria include the need of each individual country, which is usually expressed in per capita income terms of the country. Another criteria is the importance of that country to Canada in a political sense. As one of our advisers put it, It is more important to Canada, for various reasons, that some countries have more economic development than others. This is a way of putting the political emphasis on it. A third factor is the ability to utilize aid, the absorptive capacity, as the economist would call it. A fourth factor is the ability to make use of Canadian resources and personnel. There is a fifth factor, namely, the commitment, as it were, to development of the recipient government—that is just how good has it been doing with the resources it has available, and how is it pushing its own particular resource base.

The problem, when you come to do the allocations on these sorts of factors and conditions, is that they are not all mutually consistent. Sometimes you have extremely good performance from countries which are relatively high in the income categories and, in fact, that is probably why they are high; whereas from an aid point of view, you should be giving it to the low income countries.

At the same time you have certain countries which are very low on the per capita income which have a very poor performance and no commitment to development at all. This would have been characteristic of Indonesia under the Sukarno regime. So there is not any scientific way of balancing these off.

The actual allocations, at the moment, is done through a rather complex process of interdepartmental consultation between the Department of External Affairs, CIDA, Finance, Trade and Commerce, and a number of other departments on occasion are brought in. During these discussions, the ability to use funds—the pipeline, as it were, of projects which CIDA has in the Planning Division—is balanced off against other considerations of where we think the aid ought to go, what the relative balance should be between the Caribbean and Latin America, between the two parts of Africa and the balance in Asia. Asia, of course, is the oldest part of our program and the bulk of our bilateral funds go there, largely because most of the people in the developing world live there.

Senator Connolly (Ottawa West): You mentioned the Commonwealth as a standard. Is the Commonwealth factor considered in planning?

Mr. Chambers: Not particularly, no. It does explain historically a good bit of our allocations, but at the moment it is not a very important factor other than that there are various Commonwealth meetings at which various people meet each other and ask for help. Other than that is it not a major consideration.

I do not know whether my reply on the allocations has been very helpful to you, sir, but we have inherited a historical allocation pattern from the past. Into this historical pattern have been added, recently, the Francophone African program, the Latin American program, which is developing recently as a result of the Latin-American policy review and the program in Indonesia. Those are the major additions to the old historical pattern which we started the 1960s with. At the moment the actual allocations from year to year is a compromise between what we feel the pattern ought to be for Canadian assistance, with the ability to use funds in the year in which we have allocated them. If we allocate to a country that cannot use the funds, then they build up unused and we have our pipeline problem, which I am sure you have all heard about. This is one of the compromises.

Senator McNamara: I may be wrong in this, but is it not true that your funds are to some extent earmarked for certain types of Canadian goods—I am talking about grain now—and this is a factor that you, in your planning, have to consider. Do you not have to move so much wheat in the period out of those funds. Is that not one of the main factors in your planning?

Mr. Chambers: Yes, it is a factor. The amount which is normally requested from Parliament for food aid is as a result of an estimate of what we can legitimately use for food in a particular year. We are, for instance, right now, starting to make some estimates of what we can use for food aid in 1972-73. Therefore the amount which is presented to parliament within the overall development assistance aid level that the Government is proposing is determined by what we think we can use. It is part of the allocation process. I would not want the impression to be left that we are faced with a food aid vote that we really have not had anything to do with determining; this is not the case.

Senator McNamara: Is it not true that you are finding it difficult to find places to put the amount of food aid Canada is prepared to give?

Mr. Chambers: We have had, on occasion, and I suspect that we may have, for instance, next year, depending upon India's requirement. India has said that they will not need food aid in 1972. Since we provided \$41 million in food aid in India—that means we will have to shift a lot of allocations around. This may cause difficulty. On the other hand food aid is extremely difficult to predict because we are living on such a fine margin that just one bad monsoon may completely reverse the whole process. It is extremely difficult to predict what will happen. As far as we can, at the time we determine the food aid vote or estimate put before parliament, we try to estimate what we will need.

Senator McNamara: I am not against food aid—I do not want to leave that impression—but are you not finding that the Americans are trying to corner the food aid markets in the world, and are going to make it difficult for Canada to contribute its share of the aid program in the form of food. It seems to me that the Americans are going for food aid.

Mr. Chambers: Yes, they are, but I do not think that they are causing us particular concern. Our food aid is normally provided on easier terms than the Americans, so that there is some attraction there.

The other point, which is true, is that the Americans are having certain budgetary problems of financing the food aid. They would prefer to provide it under other titles of PL480, which gives them some income.

Senator McNamara: I understand President Nixon allocated another million dollars to food aid.

Mr. Chambers: I had not read that. This might pose problems. Where there is a genuine need we never have a problem in getting rid of food aid.

Senator White: What food aid are we willing to provide other than wheat?

Mr. Chambers: We are willing to provide, under the program, any Canadian food stuffs that appear to be required by any particular recipient country.

Senator White: Can you list some foods that have been supplied.

Mr. Chambers: Of course there is flour, which goes along with wheat. The other main item is milk powder. We have, upon occasion, provided certain kinds of dry vegetables, corn, fish, whenever we can obtain it, dried or canned. We have provided on one occasion that I can remember, potato flakes or powdered potatoes. We have provided on one occasion cheese as a protein requirement. We are fairly open to anything that is produced by Canada that is required by individual countries.

The real problem is that many of the foods that are in common consumption in Canada require certain kinds of distribution and facilities which do not exist in most of these countries and, therefore, it is not appropriate.

Senator White: What countries would you sent Canadian cheese to?

Mr. Chambers: I have forgotten the precise country, but I have an idea it was somewhere in Africa. There was only one isolated shipment.

Senator Cameron: Mr. Chambers, in starting out, I would make a comment, and then ask a question. In reading your submission and others which have gone before it, I cannot help but having something of a feeling that the approach is which might be called a scatter gun approach, that we are trying to cover a tremendous area with relatively small amounts. This may be an unfair assessment. I would like your comment on this. For example, the brief states that last year we upped our aid to Indonesia \$5.2 million, or something like that. This is

in a country of 130 million people, which suggests a pretty thin dispersal. As I said, this may be an unfair comment, but I would like your reply to it.

Mr. Chambers: I would have to confess that on a purely administrative bas.s, we have been somewhat concerned over past years about dispersion, as well. It is a very difficult issue. If you concentrate in a few countries and everybody else concentrates in a few countries, people get left out. The people who get left out are usually the poorest or smallest areas.

There are those for example among our advisers on the foreign policy review, who felt that if Canada had a particular role, it would be to provide assistance to a number of the small countries which had no particular strategic importance to anyone or commercial importance and this was, perhaps, a place where we could legitimately use our resources. Because of that proposition, you will recall that one of the conclusions of our foreign policy review was that 20 per cent of our bilateral program would be used for what we call non-countries of concentration—small countries. What that really said is that we would cease, as it were, to pull back and maintain minor programs. That is one factor.

Regarding the particular reference to Indonesia, of course, we are developing a new program there, and the allocations, as I have indicated to you earlier, are partly a reflect on of what we will need in the way of cash disbursements and in the early stages of developing a new program these tend to lag behind. The program in Indones a that we hope to develop will be somewhat larger than the \$5 million or so allocated last year.

The other point is that it is extremely difficult to withdraw from countries. We found that once you are in it tends to be a one-way commitment. You get programs and projects in countries which need continual support in one way or another; and, particularly, if they are good projects or programs, you hate to see them lose support.

The other factor in this is that as long as you have a program which is essentially tied to Canadian goods and services, you may have to have a fairly widely dispersed program in order to use those goods and services usefully in a wide number of areas. It is not easy to select a few countries which can make use of all of the Canadian goods and services.

Then there are a number of other miscellaneous factors accounting fo rthis, such as the fact that we have diplomatic representation and they come in and ask for assistance. How do you say no to a legitimate demand from a country that is as poor as the next one you are helping?

I am not sure this is a satisfactory answer. In principle I would agree that what we should do is concentrate on a few countries where our aid is effective and we can have maximum impact. This is why we tend to have a few countries in which most of our program is concentrated because that is where we want to put the main emphasis. But there are elements of justice in cutting out the other ones. I do not think I can give you any better answer than that.

Senator Cameron: The second question relates to that. What is the typical time factor on a project? I realize it may be difficult to say that you are going into a program for three, five, or ten years, but in the planning division you must have some time schedule in mind which, understandably, you may have to modify as time goes on. What is the general criteria?

Mr. Chambers: This is a question which has perplexed us for some time and, in fact, we are trying to identify the time patterns required for different kinds of projects so we will be able to anticipate the requirement for funds a little farther ahead.

By and large it is beginning to emerge in respect of capital projects that if you start from the stage where you have to do feasibility studies and preliminary engineering, and let the contracts and everything else, it can be three or four years before you actually start spending the money on things being shipped from Canada. It is a three or four year lag.

The World Bank and the International Development Agency, which is its soft concessional lending arm does mostly project aid. I think they have always about three to four years of commitments in their pipeline undispersed.

On commodity assistance, the pipeline can be somewhat shorter, particularly after you have a program established. Once all the administrative contacts and arrangements are made, one can enter into a loan agreement for the provision of certain basic commodities from Canada and then have the contracts let and shipments made within about a year to 15 months. That is only after you have the pattern established.

Setting up a commodity program in a new country is an exceptionally complex process because what has to be done is to establish certain trade patterns, certain commercial patterns, contacts and specifications and all these items which take a very long time.

The most rapidly moving, of course, of the material assistance is food aid which we put out to the country normally in about nine months from the time of commitment. The two main problems in food aid are specifications of what they want in terms of wheat—and, if it is flour, it gets a little more complicated—and arranging shipping, which entails not only getting the ship but having the food arrive in port at a time when they can handle it. Most of these countries have very limited port space and very limited storage space for food and, therefore, it has to be carefully programmed. They may be getting food aid from several different sources and they have their own crops to handle, so it is a scheduling problem. Food aid can take nine or twelve months but on occasion, we have moved it in three months.

Senator Connolly (Ottawa West): If there is a crisis you would do it quickly?

Mr. Chambers: Yes, in a crisis that means they have the storage and they can use it. On a regular basis we have to program it in.

The other main part of bilateral assistance is technical assistance—that is personnel going abroad. It would normally take between six months and a year to get a

person into the field. One has to get a request, define the terms of reference of what he is going to do so that it is known what kind of a man to hire, and then we have to go out into the Canadian economy and locate him and enter into a contract with him. After that has been done, the advisor has to make arrangements for leaving his own job. By the time all this gets done, it is nine months or a year before he is in the field.

One can assume a minimum plan for any kind of assistance in a bilateral program of six months to a year, and anywhere up to four or five years. In fact, we have a very large hydro project now in Malaysia, which we started three or four years ago, and if it goes ahead it will not be completed until 1978.

Senator Cameron: Related to this and thinking of our aid package as a package, you have a number of programs in being, and some are naturally being phased out. You will be starting new ones which will be financed by the money left over from the projects that are finished, and by the increases in the grants.

Mr. Chambers: Yes.

Senator Cameron: What percentage of the total aid package, as of day one of the new financial year, is committed? What I am trying to get at is what percentage of the total budget have you left for new projects in each new year? This will vary, I realize, but is there a rough ball park figure on that?

Mr. Chambers: This has changed over the past two or three years. A year or two ago we had a very large uncommitted pipeline which we were carrying from the previous year into the new year. This was causing us a particular problem. I think in the calendar year 1970 the total aid commitment was \$460 million and the aid appropriations for the past year amounted to \$364 million, which indicates that we pulled down over \$100 million.

I would say that on balance right at the moment we have committed very close to what we are bringing into the new year. I would have to qualify this because we have what we call a forward commitment authority in CIDA, whereby we can commit against the following 4 years up to a maximum of 75 per cent of the current year's allocation and appropriation. We have started to use that authority fairly substantially in the past year, although it is nowhere near maximum utilization yet. Our forward commitments against future years' allocations would, at the moment, be equal to what we would be carrying forward to other countries uncommitted. I would suspect that we are now on balance working on future years' appropriations and allocations. That is on a commitment basis.

I am not quite sure whether it is not equally important to stress disbursement. This is the real problem. I have had many long and wideranging arguments with my confreres in CIDA over what the carryover ought to be as a minimum, and what our target ought to be. My own personal view, and I would have to say that this is a personal view, is that at any given year on March 31 we probably would have to carry into the next year appropriated but undisbursed funds equal to the previous

year's appropriation. In other words, the whole year would be carried forward undisbursed on average. It might be longer with certain kinds of assistance and less in others.

This compares, actually, quite favorably with most other aid donors with whom we have discussed the problem. The American program has up to a two year pipeline. The World Bank, as I have said, has a three to four year pipeline. On the reception end, for instance, India wants a two year inflow pipeline. If you have an inflow pipeline of two years, you would have to have an outflow pipeline of two years. So I would suspect that if we had that sort of aid disbursement pipeline between appropriations and disbursements of one year at the end of the fiscal year—which means that on April 1st you would have a whole new year's appropriations available. This is my own view of what I would consider an appropriate pipeline.

Anything less than that means that you are probably going to have to run the program down at some stage.

Senator Cameron: You stated, as Director of Planning, that you started by allocations. I am wondering if you do not go back farther than that. For example, who initiates the request? Is it the government of the country, or does it come as a specific request from them to CIDA? That would come before you started allocating?

Mr. Chambers: I said the Planning Division had two functions, one of which one was the allocations. I did not actually get around to the second one. The second one is actually the project development and evaluation.

The traditional way in which CIDA operated in the previous External Aid office is what might be called passive. We accepted requests and then we would examine them and say yes or no to requests from particular individual countries. These requests normally come through the economic planning or finance departments in the recipient countries, through our embassy and then they are transmitted to CIDA. That was the formal procedure and it is still the formal procedure.

We insist that every request or every bit of assistance we give is asked for by some duly delegated authority in the recipient country in order to ensure that it is something that is wanted by the recipient government.

That formal system still exists, but what we have done in recent years is to, perhaps, take a little more initiative in going out into the country itself and sort of promoting certain things to encourage the flow of these requests.

One of the most successful ways that we have done this is by providing, in a few cases, what we call project development and planning teams to the government. I think the most successful case of this is Tanzania, where we have quite a large number of people in various governmental departments whose primary task is to develop and define projects to the point where they are ready for financing. As a result of this our program in Tanzania is growing very rapidly. We have absolutely no dearth of good projects and good requests which come in.

One of the ironies of the developing world is that while there are, of course, unlimited needs and unlimited requirements for aid for capital, educational and technical assistance, there is a very great shortage of precisely defined projects which are ready to have money spent on them. One of the very curious things in the developing world, is to see several donors running after a project with money when the project is defined and the specifications are there and you know precisely what is wanted—there is all sorts of money for that. The reason is basically this lack of project preparation.

Two or three years ago, therefore, we made a deliberate attempt to try and provide people in project preparation for a number of countries and we are not the only ones. The World Bank is doing this and a number of other donors are doing it. As a result, what we call the absorptive capacity of a number of these countries is rising very quickly and very markedly. So the requests now are beginning to come through much faster.

Occasionally we get requests which have been generated by Canadian businessmen who have been in and out looking over the territory and we do not particularly mind these as long as the particular proposal is consistent with development priorities of the recipient countries and has the approval of the recipient government and seems to be a good project. There are a few of those coming to us.

Senator Cameron: Do not misunderstand this question. You have said that the requests for aid came through official government circles. Am I correct in saying that you also drum up business in a way that the CIDA officials, from their knowledge of the countries, promote business so that the requests, while officially coming through governments, may have originated through the enthusiasm or the promotional skill of CIDA officials.

Mr. Chambers: This has happened on occasion. I would agree that is what I meant when I said we are taking a little more initiative to trigger, as it were, requests from the country. What is happening more and more is that as the program gets established in a country, you build up a momentum. Projects evolve out of other projects that are taking place. For instance, you build a power plant and all of a sudden other distribution projects come out of it. Your people as they become more and more familiar with the program and when our engineers go out, they quite often say, "Look, there is a very good project there that is required to expand their market, and it has a good rate of return." And they will tend to, as you say, drum this up. I think I can safely say that it is drummed up from a development point of view and what we consider to be good projects is from that point of view.

Senator McNamara: I have a supplementary question. Is there competition between donor nations over good projects? Is there a danger that the Americans will also see the real value of this, and latch onto it? Are you working with them or is there competition between the donor countries?

Mr. Chambers: There is competition to find, I think, good projects. But once a country has quite clearly got one and is chasing it up, there is not any sort of cutting into it.

At the very preliminary stages we all may be looking at the same project. If there are pre-feasibility studies, for example, we are all looking into power projects, and import substitution, projects and public health projects and that sort of thing. Once a donor has more or less identified something and the recipient has made a request, then, normally, there is not too much more competition.

Senator Cameron: In a recent hearing, Professor Higgins suggested that there might be a proposal for some kind of Marshall Plan of development for Southeast Asia. This sounded like a very good idea. Are you prepared to say, at the moment, if the program that is now in being, in effect, the beginnings of what could be described as a Marshall Plan in aid for Southeast Asia?

Mr. Chambers: Probably. My problem is that I am not quite sure what Professor Higgins had in mind as a Marshall Plan. I am not quite certain of what he defines in that. If, by a Marshall Plan, he means basically a very substantial well-coordinated effort for the development of Southeast Asia, then I think the sort of steps which are at a very preliminary stage at the moment, under the auspices of the World Bank, are very close to that. I think once there is some sort of resolution to the instability in Southeast Asia there will be a need, and a tremendous potential, for this kind of a large program.

I am not quite sure that all of the aspects of the original Marshall Plan are applicable to Southeast Asia. As far as the Indochina states are concerned and, perhaps part of Thailand, the dominance of the Mekong River and the Mekong Valley means that some sort of coordinated scheme for development is almost essential. For instance, I can illustrate this quite simply I think, by one of the major projects which is still very much in the idea stage in the Mekong system, is the Pamung Dam on the Mekong River. It would cost somewhere in the neighborhood of a billion dollars and produce an enormous amount of power. Someone suggested this and I got rather unhappy about it, because it would produce enough power to electrocute the whole area. The frightening thing is that it would require an investment, I am sure, of several hundred dollars per kilowatt hour to utilize the power. So what you are talking about is not just an investment of one billion dollars; it is several hundred billion dollars. That puts this whole scheme off until that kind of capital is available.

It does illustrate the fact that just one project, which is probably a fairly efficient power project, can supply the whole area and the whole development structure of the area, therefore, has to be coordinated by some technique and something like a Marshall Plan. I don't think I prefer to call it a Marshall Plan, but some sort of approach like a Mekong or regional development plan is probably necessary.

Senator Macnaughton: Your working paper under the heading "Hongkong and Singapore" says, "The technical assistance programmes now in existence will continue until 1973." What would they be?

Mr. Chambers: Basically training and trainees in Canada. I think in both cases they are training students in engineering in Canada.

Senator Macnaughton: In view of the wealth and power of both of those places, why would it be necessary for us to put anyone there at all?

Mr. Chambers: I have asked the same question; and, that is why it says "until 1973." Once we have got them in the second or third year of their courses, we pretty well have to finish. We have, in fact, notified both of them that we are phasing out the program. Singapore, as I have said, is Japan four years ago.

Senator Macnaughton: Why did we start?

Mr. Chambers: These programs started away back. The Singapore program and, I believe, the Hongkong program, go back to the early 1950s when the economic circumstances were quite different and, also, you will recall that Singapore was a part of Malaysia at one stage and a number of the programs got started in that integrated stage.

Senator Macnaughton: I am asking for information. I am not trying to be critical.

Mr. Chambers: I agree that one of the things that we have to do at a certain stage is phase out countries.

Senator Macnaughton: Anyone visiting either place quickly sees the financial strength.

Mr. Chambers: I agree.

Senator Macnaughton: Under the heading "Philippines" you have referred to the assistance from the United States and Japan and you are examining a capital assistance request. What would that be?

Mr. Chambers: I am not quite sure.

Mr. F. L. A. Ward, Asia Section, Planning Division, Canadian International Development Agency: It is a very modest program. The UNDP and the Asian Development Bank have been in looking at a project for the development of the Laguna Bay area of Manila.

Mr. Chambers: That is a water system.

Mr. Ward: It is a total development, sort of ecological and industrial development of the capital area. The only respect in which Canada is looking at it is that it had a request to enter into a trust fund arrangement with the UNDP and the Asian Development Bank. We will have to come to some decision on whether we want to participate or not.

Senator Macnaughton: What does that mean—capital investment or lending of engineers?

Mr. Ward: In our case, it would mean the provision of funds in the fund-in-trust arrangement for the purpose of providing Canadian engineering services.

The Deputy Chairman: Honourable senators, the response has come from Mr. Rick Ward, who modestly describes himself as a desk officer in the Planning Division. In spite of the designation, he has just recently returned from Ceylon.

Senator Macnaughton: Mr. Chairman, there is a very interesting comment under the heading "South Pacific". It refers you to the Regional University of the South Pacific in Fiji. I understand you are providing professors and scholarship funds.

Mr. Chambers: Yes.

Senator Macnaughton: Could you just give a little more information about why and where?

Mr. Chambers: We just started that program in the last year or so, upon the request from the countries involved and, also, a number of requests from our own missions and posts within the area.

I think it is two professors and a number of scholarships, some of which are regional. In other words, scholarships are given to students in the region to come into the university. What we are trying to do is to help, I believe, in the fields of teacher training, and we are also concerned with the agricultural development of the area, which is one of their potential resources.

I had a recent discussion of the South Pacific with the British Overseas Development people who, of course, carry the main burden of the assistance to this area. Our assistance, really, is a function of the islands becoming independent. We normally don't provide assistance to areas which are completely colonies. Once they become independent they become, as it were, eligible members of the club.

Senator Macnaughton: Is that what you mean by "newly-independent countries of the Pacific is under consideration."

Mr. Chambers: Yes.

Senator Macnaughton: I think it is a very good idea because, as you say, they are independent as of September and October last year and they certainly need a lot of help. I remember when we were on the CPA conference, the Canadian-Australian ambassador was very keen on getting work done in that particular area. He emphasized the Canadian presence in that part of the Pacific. It was cheap, effective and very much needed.

Mr. Chambers: We never have very much trouble recruiting for it, either.

Senator Macnaughton: Not this winter.

The Deputy Chairman: Would the same general remarks apply to the Asian Institute of Technology?

Mr. Chambers: Yes.

The Deputy Chairman: Where is it?

Mr. Chambers: It is in Bangkok, Thailand.

Senator Cameron: May I add a supplementary to this? Would this project of the university in Fiji be similar to that of the University of British West Indies in training teachers and giving scholarships? Is it parallel, on a smaller scale?

Mr. Chambers: I think I would prefer to say it is not parallel. The University of West Indies is a very comprehensive and complex project. This one is simply the provision of two professors and some training places, and that is all.

I mention that the two areas in which the university is most usefully concerned is teacher training for secondary schools and agricultural research. Although apparently there is some conflict between the governments of the various islands and the university over the role of agricultural research between the agricultural departments.

Senator Connolly (Ottawa West): Would you be able to give us some idea of the total percentage of your whole budget that is used for assistance in the Pacific rim?

Mr. Chambers: Of the bilateral budget or the whole aid budget?

Senator Connolly (Ottawa West): I think the whole aid budget. Perhaps you would break it down for a given year.

Mr. Chambers: For instance, for the last year, I would say somewhere in the neighbourhood of 10 per cent of the bilateral budget, which would be an amount of about \$276 million. Somewhere in the neighbourhood of \$25 million, I think, would be in Malaysia, Indonesia, Thailand, Indochina, Philippines, or perhaps a little less.

Senator Connolly (Ottawa West): And the multilateral?

Mr. Chambers: This is extremely difficult. We have, of course, our contribution to the Asian Development Bank. There is the regular capital contribution—I have actually forgotten the precise amount—I think about \$25 million and then there is the special fund. The problem there is, of course, the Asian Development Bank makes loans to other countries than the Pacific rim: Haiti, Pakistan, Iran and a number of countries there. I don't know quite how you would prorate that.

In addition, of course, the World Bank itself and the IDA make loans to the area. I am not quite sure how you would prorate the Canadian contributions there.

Senator Connolly (Ottawa West): Would there be another \$10 million worth of Canadian aid going to countries of the Pacific rim to multilateral assistance?

Mr. Chambers: If you prorate the Canadian contributions, these multilateral agencies, and then take their assistance out of it, I think that would probably be a very reasonable estimate.

Senator Connolly (Ottawa West): That does not include the food aid that Senator McNamara mentioned in his remarks.

Mr. Chambers: Yes, it would include food aid to the Pacific rim.

Senator Connolly (Ottawa West): So that the total of Canadian...

Mr. Chambers: You are not including India, Burma, and Ceylon in this are you? I am not, anyway.

Senator Connolly (Ottawa West): No. I do not think we have included India in our discussions here, Mr. Chairman.

The Deputy Chairman: No we have not. I would suggest, Senator Connolly, we might take the countries listed in the brief as being the Pacific rim countries that we are dealing with.

Senator Connolly (Ottawa West): Would it be too much to ask, Mr. Chambers, to indicate—and I do not know what yardstick you use—the amount of aid that is given to these various countries? I am not asking for specific figures, but something that would help the committee.

Mr. Chambers: Yes. I think our allocations are probably the best indication. For the fiscal year 1970-71 is the one just past, Cambodia was \$500,000, Indonesia was \$5,750,000 and that included food aid of \$3 million, Korea was \$80,000, all technical assistance and advisers, Laos was \$400,000, Malaysia was \$3,500,00 Singapore was \$580,000, Thailand was \$2,000,000, South Vietnam was \$1,900,000, the Philippines was \$80,000 and the University of the South Pacific was \$125,000 and the Asian Institute of Technology at Bangkok was \$190,000.

Senator Connolly (Ottawa West): That is about 50 per cent of the total aid to the Pacific and Asia. Pacific and Asia you said the bilateral amount was \$25 million and the multilateral perhaps ten.

Mr. Chambers: No.

Senator Connolly (Ottawa West): Were you restricting it?

Mr. Chambers: It was restricting it. I was a little high, obviously, on the allocations. They would be about \$25 million total, multilateral and bilateral in this area. Once you move into India and Pakistan and Ceylon, then, of course, our bilateral assistance goes way up. If you include Asia, then, I think our total allocations for Asia in that year were about \$125 million.

Senator Connolly (Ottawa West): I would like to come back to something that Senator MacNaughton raised, and again not critically. You said that Thailand was quite well off, that they had no foreign exchange problem, and yet we put \$2 million of help in there. I am just wondering whether you can set off a decision of that kind with a requirement, say, for an African or South American country, or a Commonwealth country. I think we are spreading ourselves pretty thin in places. Why would we put \$2 million into Thailand in those circumstances instead of putting it, perhaps, into a more needy country. That may be an unfair question.

Mr. Chambers: No, I think it is a very legitimate question. Thailand is a very needy country; its per capita income is extremely low. What I think I said was that until relatively recently they had a very high foreign exchange reserve, that is their cash position was quite good.

For this reason, the program which we developed in Thailand has been heavily oriented towards technical assistance and, particularly, in the educational sector. I might say that the allocations which we made in 1970 and 1971 was less to Thailand than we made in the previous year because they were not using it. But we did have to allocate enough to cover the commitments which we have in a very large secondary comprehensive school system which we were completing.

In the allocation, one million of it was grants. That covers the technical assistance which we had outstanding. The other one million dollars of the allocation was in a development loan and the reason that was made available was because we were carrying on, at the time these allocations were determined, very active negotiations over a fairly substantial project in transportation which was, in fact, an airport and we anticipated we might need it if this came to fruition.

In the event that it has not yet come to fruition for a number of reasons, not entirely unconnected with changes in government ministers, the allocations for the next fiscal year will again be considered rather critically. Your point is well taken and the allocations, I think, do reflect some of the considerations. At least the trend of allocations.

Senator Connolly: I am not arguing against assistance to Thailand. I always had the idea that they did need help.

Mr. Chambers: They do.

Senator Connolly (Ottawa West): When you tell us that they are in a pretty good position cashwise—

Mr. Chambers: Up until recently. Their foreign exchange position has deteriorated rather sharply in the last year for a number of factors: one is that they had trouble in selling their rice. Some of the rice markets have been disturbed. And the second one, of course, is the number of American service men going there is much lower than it used to be, so their earnings from that have dropped off.

I suspect that Thailand will need aid and need it in a very significant way in the not too distant future because they are a very poor country. But two years ago their foreign exchange reserves were over a billion dollars, which is pretty healthy for a country of that size.

Senator Connolly (Ottawa West): Would you care to say something about the climate for private investment by Canadians in these countries. I do not want you to go through them all, but I think that one of the purposes of aid is to try and get them to the takeoff point and then to assist to the extent that we can. We cannot do it all ourselves. After the takeoff point, presumably, they are going to be able to manage their own affairs and they will not need so much aid, but, presumably, they will be looking for foreign investment. Is this an appropriate area for Canadian investment?

Mr. Chambers: I think yes. I cannot think of another area, as a whole, in the developing world where virtually all of the governments, at least as they are presently

constituted, are as favorable to foreign investment as the governments of that particular area are at the moment. Virtually all of them have fairly open policies towards foreign investment.

That is not to say that the governments are not becoming somewhat more careful in the kind of conditions they set up for foreign investment. I think this is not a bad thing, on the whole, because some of the operations of the local private firms in the area have not been awfully efficient and have not led to, I think, the best use of resources. They are working very hard on setting up appropriate conditions and regulations, particularly in the resource industries, that firms can come in and operate.

Having said that, there is quite a clear dependence, and conscious dependence, on foreign private investment. I think this is most striking in Indonesia where there has been a complete switch around and very substantial private flows and very large developments going into Indonesia at the moment.

Senator Connolly (Ottawa West): Canadians?

Mr. Chambers: Yes. I think INCO is involved in Indonesia in one large project. I am not entirely sure that there are not one or two other Canadian firms.

Senator Connolly (Ottawa West): I think there are Canadian oil companies interested. I do not mean American companies in Canada; Canadian owned and Canadian operated companies.

Mr. Chambers: What, of course, these countries have to do is to make sure that their taxation system and their control system is such that a reasonable porportion of the earnings and rewards of these industries goes to the country, and not only to the country but to the proper coffers in the country.

Senator Connolly (Ottawa West): And stays there.

Mr. Chambers: Yes, and is used within the country for development purposes. This is something they are working very carefully and very hard on.

Senator Connolly (Ottawa West): Mr. Chairman, I have one other question. It is a general one, and it has nothing to do with the Pacific rim. I was very surprised to hear Mr. Chambers say that the Commonwealth factor was no longer one of the factors in the allocation of aid. I understood, at least four or five years ago, it was one of the very significant factors in the determination of the allocation of aid. When did that policy change?

Mr. Chambers: The policy did not really change so much as that the priority of certain non-Commonwealth areas came up to it. The francophone African program grew very significantly. The interest of Canadians in Latin America was such that through the foreign policy review on Latin America it was decided we needed more of an exposure there, so that took on added emphasis.

The only area that is a major country that is not a Commonwealth country and does not fit into those other two categories is Indonesia. The reasons for initiating a program there I think have been more or less outlined. It

was the only major developing country that we did not have a program in. It had some potential interest for Canadian business interests and exports, particularly on the West coast of Canada. It had a government which was extremely capable and were making, as far as we can tell, all the right decisions, within the constraints that they have to work in. Not everything is rosy, but at least they are doing as well as can be expected. There is a very well organized World Bank group in there helping them to develop their program. So, seen from the development point of view, as well as certain other Canadian points of view, it is worth while to initiate a program to Indonesia. Once you take in Indonesia, francophone African areas and Latin America, that is the non-Commonwealth part, so their priorities have really just risen to it. Certainly the Commonwealth still takes, by far, the larger portion.

Senator Connolly (Ottawa West): What percentage?

Mr. Chambers: Well over half. It must be 60 to 70 per cent by the time you take the Commonwealth African program which I think was running \$40 to \$45 million last year in allocations and the Asia program, India was over \$80 million, Pakistan was \$22 million, Ceylon was \$4½ million, Malaysia \$2 or \$3 million. I would say possibly up to two-thirds of the program. The Caribbean is in there as well. The Caribbean in 1970-71 was \$24 million. The Commonwealth African program in 70-71 was \$24.8 million and there were certain special allocations which brought that up to \$65 million. We provided help for East African railways and the Botswana Shashi River project, Zambia Railways and Nigerian railways were very substantial, which totalled \$65 million. Of the Asia program India was \$83 million, Pakistan \$25½ million, Malaysia \$3½ million with Ceylon \$5½ million. You have about \$115 million there, at least.

Senator Connolly (Ottawa West): I would think what you have told us indicates that you have a pretty firm policy in favour of the Commonwealth countries.

Mr. Chambers: Yes. The change has been relative. There is two-thirds of the program. Of course, the Commonwealth, or ex-Commonwealth if you want to call it, has by far the largest proportion of the world's developing...

Senator Connolly (Ottawa West): The ex-Empire.

Mr. Chambers: Well, there is India and Pakistan. If you take India, you have 550 million people. That is a substantial portion of the developing world right there.

The Deputy Chairman: Senator Connolly objected to the phrase "ex-Commonwealth".

Mr. Chambers: Some countries do not consider themselves still in the Commonwealth—a few of them; not very many.

The Deputy Chairman: Unfortunately Ireland is one of them.

Senator McNamara, do you have a question?

Senator McNamara: I have just one question, and it was prompted by something Senator McNaughton said. You were talking about Malaysia and the phasing out of those programs. I realize that these programs started earlier, but how do you justify the Philippines? I am prejudiced, but I regard the Philippines as a satellite of the United States. I think that any aid we are putting in there is just helping Uncle Sam. It is only \$83,000, which is not too much, but why do we look at the Philippines which is really another state of the U.S., and anything we do takes off them a little part of the burden they have inherited in that unfortunate country?

Mr. Chambers: In effect, the reason why we do not have a larger program there is primarily because we also consider it as a main responsibility of the United States and there is another factor in allocations, which is what you call the residual donor. If somebody else is providing assistance, there is no particular reason why you should add to their available resources. We have considered the Philippines to be capable of obtaining most of their requirements either from the United States or Japan, which is an increasingly important supplier of assistance.

I, quite frankly, am not quite sure how we did get into the small training program. It was there when I came and we inherited it. It is a minor one. All training is done in Canada. It is a particularly easy one to carry out. It does not cause any particularly heavy administrative problems. I presume it was a response to the Philippines when they became members of the Colombo Plan, which they did in 1954. I suspect that is the reason.

The Deputy Chairman: Could you give us a quick rum-down of the activities of other donor countries in the Pacific rim? What are they doing as compared to our effort?

Mr. Chambers: I do not know the details of their programs and I only know the general outline. I can say that the major aid donor in the Pacific is Japan. They are concentrating a very substantial proportion of their concessional financing in that area. They provide a great deal of technical assistance, particularly in agriculture and in some of the transportation fields. Not so much in education, I think, and a great deal of capital assistance, of course, wherever it is possible, telecommunications, transportation and ports and that sort of thing.

Their program is large and dominant enough that both they and the recipients are sensitive to much of a dependence upon Japan and there is no doubt that Japan is one of the most efficient suppliers of capital goods and requirements to the area.

The Deputy Chairman: Would this be mostly the public or private sector in Japan?

Mr. Chambers: It is very difficult to separate the two in Japan. They do have a very substantial official development assistance program, much of which goes there. It is also true that a substantial proportion of the resources transferred are private investment and mixed credits. The way the Japanese banking and commercial system works, it is very difficult to find out how much is government money and how much of it is private.

The United States, of course, is a pretty major donor in particularly four of the countries, Korea, Philippines, Indonesia and, of course, Vietnam, Indochina and Thailand. They are not donors of any significance and, in fact, I am not sure if they have any program at all in Malaysia which is the other main country in the area.

Their programs again are very widespread and very heavy on technical assistance where it is needed and required and they are becoming very heavily involved in commodity and balance of payments support. This is particularly true of assistance to Indochina. They also provide a great deal of food aid to Indonesia.

Senator Connolly (Ottawa West): May I ask a supplementary question? Does the Japanese aid program sort of follow the Japanese investment and contractual program? In other words, Japan is starving, of course, for resources, and they get their coal, ores and oil from offshore places. Now, is their aid program beamed to these commercial interests and to the areas of these commercial interests?

I had an idea that the basis of our aid—and I may be wrong about this—is that we are giving for the sake of helping the recipient. It may be less altruistic than I have described, but it seems to me—and I may be completely unfair when I say it—that the Japanese program, particularly in that area, may be a good deal less altruistic and may be commercially oriented.

Mr. Chambers: I think that basically I would agree with you; that they are probably more commercially oriented than our program is. They are very interested in either the resource developments or setting up the infrastructure and public transportation and the sort of things that are required for resource development.

At the same time, I think it would be fair to say that they also provide a lot of technical assistance, education and rural development which in the long run may have some relevance in raising incomes. I think it is a pretty genuine development assistance and a kind of development assistance which the Japanese are particularly able to provide because they have the same kind of agriculture and experience upon which to draw.

The real problem here is, of course, the Japanese trade patterns and indeed the trade patterns of most other of the major donors. The natural trade patterns are much more oriented towards the developing world than our own. Canada, of all the major donors, has probably the smallest proportion of its normal commercial exports going to developing countries. We are very heavily oriented towards the United States and Europe. This means, therefore, that there is not any well established trade pattern for Canadian development assistance to follow. Therefore, it is inevitable there is the appearance that we are just there because it is development assistance and, to a certain extent, this is true.

Whenever we can see an opportunity to assist the Canadian business community, and at the same time do a good development job, we do not hesitate. The real point is there is more opportunity for most other donors to, as it were, put these together than there is for Canada.

The Deputy Chairman: You mentioned two countries. Are there some other donor countries there?

Mr. Chambers: Australia, of course, has a major interest in the South Pacific area although most of its assistance goes to its own major responsibility in Papua and New Guinea. It also has a significant growing program, particularly in Indonesia and, to some extent, in Malaysia, although I think they are withdrawing or playing that one down now. They also have minor programs in the Philippines and other areas. But this is an area of primary concern to Australia.

The other donor with major concern with some parts of the area is, of course, the United Kingdom, which has a residual responsibility, particularly in Malaysia and some in Hongkong and are developing fairly significant programs in Indonesia. It has very token programs in the Philippines and Vietnam.

The Deputy Chairman: France?

Mr. Chambers: Very minor. They have their own areas, the South Pacific Islands and Caledonia.

Senator Connolly (Ottawa West): Do the Dutch do anything?

Mr. Chambers: I should have mentioned the Dutch. They are very heavily involved in Indonesia primarily, and in fact chair the intergovernmental group in Indonesia and are very major contributors to Indonesia, and relatively less so to most of the other areas.

Senator Connolly (Ottawa West): They had a tremendous number of business interests there.

Mr. Chambers: Mostly rubber plantations and tin.

Senator Connolly: And commercial.

Mr. Chambers: Yes.

The Deputy Chairman: What about mainland China or the People's Republic of China.

Mr. Chambers: We have not had any contact with that particular possibility.

The Deputy Chairman: You must have run across some of their aid programs.

Mr. Chambers: It has not been a particularly large factor. It obviously was in Indonesia before the present government came in, but there is practically no significant new input from Communist China.

Senator Connolly (Ottawa West): Even in arms?

Mr. Chambers: No, not in these areas. I do not know whether they are playing the role in Indochina, but I am just not qualified to speak on this particular subject.

Senator Carter: I apologize for coming in late, Mr. Chairman. I was delayed in another committee. Perhaps some of my questions have already been answered. I was interested in Senator McNamara's question about the Philippines.

I think you told Senator Connolly our assistance to South Vietnam was somewhere around \$2 million or \$1.9 million or something like that.

Mr. Chambers: Yes.

Senator Carter: How long has that program been going there?

Mr. Chambers: In Vietnam?

Senator Carrer: Yes, South Vietnam.

Mr. Chambers: I could not give you the precise starting, but it has been going on for quite some years. It must be at least 10 years.

Senator Carter: The reason why I asked how long it had been going on is because, apparently, we decided to help South Vietnam and not to do anything for North Vietnam, yet we are on the International Control Commission. Would not the fact that we are geared to help South Vietnam call our neutrality into question?

Mr. Chambers: This is a factor which never came to my attention. I suppose it is something we had to be careful about, but so far as I know, it was not one that seemed to cause any particular problem. I am really sorry I cannot give you the answer back to the time the International Control Commission was really operating, but I think the factors dictating against assistance to North Vietnam must have carried the day.

Senator Carter: You start out by saying that you have three main channels—bilateral, multilateral and regional—of assistance to the Pacific area. Is CIDA organized along those lines—bilateral, multilateral and regional?

Mr. Chambers: Partly. We have a multilateral division which handles our relationship with multilateral agencies such as the United Nations and the World Bank and various regional banks. The bilateral program is allocated and managed partly by my own Division and partly by four or five regional operational divisions. The regional program is actually not a separate division. It is handled with the bilateral program. What we mean by regional are certain programs which are financed from what we call regional allocations, or allocations to the Asian Institute of Technology and University of South Pacific. They do not come out of a country allocation, but they are handled as if they were by the bilateral program. So there is not a regional organization.

Senator Carter: You just have two divisions?

Mr. Chambers: There are more divisions than that, but there are two main areas: the multilateral and bilateral. The special programs and the private sector programs are run by separate divisions again.

Senator Carter: That is a separate division, so you have at least three. There has been some criticism about CIDA being slow with these programs, and drumming up funds which have been allocated and not getting into use.

The Deputy Chairman: Senator Carter, that question was asked before you came in, and rather fully discussed.

Senator Carter: I do not want to cover it. Has CIDA turned down any programs for aid?

Mr. Chambers: Yes, from time to time we turn down programs.

Senator Carter: From the Pacific?

Mr. Chambers: I cannot remember any offhand, but I am sure we have because we turn them down with fair frequency because they are bad projects, or because we cannot provide the assistance from Canada, or for any number of reasons.

Senator Carter: Maybe this question was asked, also. You have fixed criteria.

Mr. Chambers: Yes.

The Deputy Chairman: Mr. Chambers gave us a rundown of the allocation criteria that are used. Have you had any serious complaints or problems in Southeast Asia? Can you think of any?

Mr. Chambers: I suppose, yes. It depends upon what particular kind of complaint you are worried about.

The Deputy Chairman: We have to write a report and I always like to find something to criticize. I thought you might help.

Mr. Chambers: The South Pacific area, particularly Indonesia and some of these countries, is relatively new to us. In Indonesia and some of these countries, particularly the administrations are very new and do not have particularly well developed administrative procedures, or people who are responsible for certain things. This means, of course, that this is a whole new learning process when we are trying to develop programs there and it takes a considerable amount of time.

The African countries, particularly in Commonwealth Africa and India, Pakistan, Ceylon, inherited essentially a British public service system which is well developed and all the administrative procedures are set out and one can go in and have some idea of what departments do what and to whom to go to and see.

Things are somewhat less well defined in most of the South Pacific countries except, of course, Malaysia which is pretty well organized.

There are certain administrative procedures which take time to develop. I would have to say, however, that particularly in the case of Indonesia that there is very rapid progress being made in this area. They are really setting their house in order quite quickly and there is a very firm control over resource allocation and the planning ministry in Indonesia which is headed by extremely competent and well trained people. That would be one particular problem in Southeast Asia.

Another problem which we have in the provision of Canadian goods and services is, of course, it is always easier wherever Canadian business interests have been established and the knowledge of Canadian goods and services and the servicing facilities exist.

Again, in most of the South Pacific area this is relatively lacking, and making Canadians aware of the

market and the requirement and making the local people aware of Canadian possibilities and how to use Canadian goods and services is something which is going to take a considerable amount of time to work out.

Senator Carter: Have there been any problems arising out of our tied aid program?

Mr. Chambers: Yes, we are always being asked to untie and I think most recipient countries would prefer free cash to the provision of certain specific Canadian goods and services. I do not think it has been a major constraint, but it is there.

Senator Cameron: I am glad you raised the question of complaints. I refer now to South Vietnam. I have read in the Vancouver papers, and the Globe and Mail and the Montreal Star, a great deal of criticism over this medical program which you have referred to in your submission.

The holding program of South Vietnam reflects the need for assistance in the social and medical sectors. A tuberculosis clinic rehabilitation centre functioning with Canadian personnel, refugee housing, polio vaccine, VCG vaccine have been provided under the aid program. There has been a lot of criticism in the press about the director of this program at Quang Ngai, and the running of the hospital and so on. Have you any information on that?

Mr. Chambers: I have not been directly involved with handling that particular problem so I cannot really comment in detail on it. I could only say, generally, that I think part of the problems have been as much with the personnel, as they have been with the nature and structure of the project. That is all I would like to say.

Senator Cameron: Is the doctor who was heading this particular project up still in charge?

Mr. Chambers: I think we have had two or three doctors since the program started. As far as I know the one you refer to is still there. That is what we call an operational project. I have not been following it, except occasionally when they come back for more money. As far as I know he is still out there and still in charge. I can have the question looked into.

Senator Cameron: I would be glad if you would, because there seems to be several unanswered questions in connection with the operation of that particular medical unit.

Mr. Chambers: I will have someone look into the status of that.

The Deputy Chairman: Could we ask you to give a fairly detailed reply to Senator Cameron's question. In a committee such as this one of the things we like to look at are any malfunctionings of any of these programs, as well as the success side.

I wonder if I could also ask, for our own record, if you could perhaps extrapolate from your annual report a detailed rundown of the programs and projects in the Pacific rim countries so that we could append them to our report. I think perhaps you have most of it there.

Senator Connolly (Ottawa West): I do not know whether the dollar tag is the appropriate one, but it is probably the one we understand more readily.

The Deputy Chairman: We have had a very interesting and illuminating discussion. I think that one of the reasons why our aid program in the Pacific rim is as comparatively low as it is—perhaps 10 per cent of our total—is that Canada has not had a posture there and our trade has flowed in other directions. Obviously old and traditional connections such as in the Caribbean would tend to draw a larger proportion of our aid program than areas in which we have not had a Canadian presence to any extent over the years.

Are there any other questions.

Senator McNamara: Are you still having difficulty in recruiting within Canada qualified people for these technical programs? I know that was a problem a number of years ago. Can you now get the people you want to take on these assignments for you?

Mr. Chambers: I think by and large it is easier now than it was a few years ago. There is a much greater supply of technically qualified people now.

Senator McNamara: Would it be easier to get people to go to the Pacific rim than the African countries or South America, because English is more recognized?

Mr. Chambers: Possibly, but I do not think there is any significant difference that I have been able to detect.

The Deputy Chairman: It has been our practice to append the briefs presented to us in our proceedings. Is it agreed that the brief and the other information we have asked Mr. Chambers to provide be appended to our proceedings of today?

Hon. Senators: Agreed.

(See Appendices "O" and "P")

The Deputy Chairman: Before we adjourn, Mr. Chambers, I want to thank you for coming here and giving us the benefit of your knowledge and experience. I am sure you have made a contribution to our proceedings. Please accept our thanks.

The Committee adjourned.

APPENDIX "O"

BRIEF TO THE SENATE COMMITTEE ON FOREIGN AFFAIRS RESPECTING CANADIAN ASSISTANCE PROGRAMS TO THE PACIFIC AREA

By: Canadian International Development Agency (C.I.D.A.)

In this brief, the Pacific region embraces a geographical area generally east or southeast of the Bay of Bengal. Included are Burma, Thailand, Malaysia, Singapore, Indonesia, the Indochina states recognized by Canada, Hong Kong, Korea, the Philippines and various countries of Oceania.

OVERVIEW

Canadian assistance to the Pacific area has been extended through three main channels—bilateral, multilateral and regional. Examples are given below.

Bilateral Canadian aid has accounted for the greatest volume of assistance to the region. It dates from the advent of the Colombo Plan in the early 1950's for the Commonwealth countries of Malaysia and Singapore. Subsequently, non-Commonwealth and newly-independent countries have received Canadian bilateral assistance, and a very modest level of aid has been given to non-independent territories, most notably Hong Kong. CIDA's program of "matching-assistance" to voluntary agencies involved in humanitarian and development work accounts for other exceptions to the general rule that Canadian official assistance is normally extended to independent countries.

The patterns of allocation of official bilateral assistance reflect Canadian political considerations and the needs of the countries concerned. By and large, Canadian assistance for the region has emphasized technical assistance. The level of such assistance has ranged from very modest to significant. The exception is Malaysia, which is designated a country of major emphasis. Substantial capital-assistance projects are undertaken in Malaysia, whereas in the remaining countries of the region the provision of capital projects is normally undertaken on an exceptional basis, usually involving relatively small sums.

Canada contributes substantial funds to the major multilateral agencies which serve the Pacific area. These include the World Bank Group and the Asian Development Bank. These institutions lend or grant funds according to their own policies and criteria. To date, the Canadian funds provided to the Asian Development Bank have not been committed to projects.

Canada also contributes funds through such important regional bodies as the Mekong Committee, which was established to mobilize and coordinate support for the development of the Mekong river basin. Two Mekong projects have received Canadian contributions of \$2.0 million each: the Prek Thnot dam in Cambodia and the Nam Ngum dam in Laos. Other Mekong projects are under consideration. As well, Canada is participating with the World Bank and the Mekong Committee in considering further phases of development plans for the Mekong Basin.

Other regional institutions such as the Asian Institute of Technology and the University of the South Pacific in Fiji are being financially assisted. These institutes of higher learning are directed to serving wide geographical areas: AIT drawing its students mainly from Southeast Asia, and the USP from the countries of Oceania. Canadian support for these institutions is mainly in the form of scholorships tenable in the region, teachers, and some support equipment. Similar support for other regional training facilities and development organizations is probable in future, as modest levels of fianancial assistance can be administratively concentrated yet have fairly wide application.

PROGRAM RESUME

Indonesia

Following the recent Cabinet decision to designate Indonesia as a country of concentration an expanded development assistance program has begun. The forestry and transportation sectors have been identified as areas in which Canadian bilateral aid should be concentrated. In addition, funds have been made available for food aid and commodity-import programs.

Hong Kong and Singapore

Due to the fact that both countries enjoy relatively healthy economies and per capita incomes in excess of \$750 it appears appropriate to de-emphasize Canadian assistance to them. The technical assistance programs now in existence will continue until 1973.

Korea and Philippines

These countries have been receiving a modest level of technical assistance on an ongoing basis. Canada has also provided 1,500 dairy cattle for Korea and is examining a capital assistance request from the Philippines. These countries have traditionally recieved substantial economic assistance from the United States and Japan, and for this reason have not been emphasized in the Canadian program.

Cambodia and Laos

Although the technical assistance programs in Cambodia and Laos have been reduced to a minimum level, due to the present hostilities, the programs will be maintained. In addition Canada will continue to Channel funds into the two countries through the Mekong Committee.

South Vietnam

The "holding" program in South Vietnam reflects the need for assistance in the social and medical sectors. A tuberculosis clinic and rehabilitation centre are functioning with Canadian personnel. Refugee housing, polio vaccine and BCG vaccine have been provided under the aid program. When the political and military situation becomes more stable Canada will be able to address itself to Vietnam's long term development needs. The first stage in such a program will require considerable funds for reconstruction.

Thailand

The main thrust of the program in Thailand has been technical assistance. The need for trained people in technology, medicine, education and agriculture will continue to shape much of our assistance program although a growing emphasis will be placed on agricultural and natural resource development.

Malaysia

As a country of major emphasis, Malaysia has been entitled to a greater portion of aid than the previously mentioned countries. Nevertheless, the large portion of this aid has been in the form of Canadian experts, scholarships for study in Canada and resource surveys. Canada also has large development loan commitments in the Pahang Tengara Regional Development Scheme and in the Temengor Hydroelectric scheme.

South Pacific

Canada's official aid involvement in the South Pacific region is of quite recent origin. At the present time our bilateral assistance is directed to the regional University of the South Pacific in Fiji to which professors and scholarship funds are to be provided, occasionally experts to the South Pacific Commission, centred in New Caledonia, and a modest number of teachers to Western Samoa. The question of whether and in what form Canadian assistance might in future be extended bilaterally to the newly-independent countries of the Pacific is under consideration.

Burma

Canadian assistance to Burma has for the most part consisted of food aid and a modest level of technical assistance with current emphasis on training awards in the fields of public health, forest product processing and marketing, and geology. A recent undertaking to provide capital and technical assistance to establish a forest equipment maintenance centre represents a significant addition to our aid program in Burma. The possibility of providing limited further assistance in the natural resource sector is being explored.

APPENDIX "P"

Canadian International Development Agency Ottawa, Canada. K1A 0G4

May 21, 1971 Mr. E. W. Innes, Secretary, Senate Committee on Foreign Affairs, Center Block, Ottawa, Canada.

Dear Mr. Innes:

A detailed breakdown of bilateral disbursements in the Pacific Rim is attached as requested by the Senate Committee on Foreign Affairs. You will appreciate that the figures reported for 1970-71 will be subject to some modification following the completion of the final financial audit.

In response to another question, it has been calculated that both commitments and allocations for the Pacific Rim are just under 6 per cent of the value of those for the entire bilateral programme.

A report of the Quang Ngai TB Clinic is appended, as requested by the Committee.

Yours sincerely,

F. J. Chambers,Director General,Planning Division.Attach.May 25, 1971

REPORT ON QUANG NGAI T. B. CLINIC

- 1. Objective: To provide assistance to the civilian population in the detection, diagnosis, control and prevention of tuberculosis as part of the Ministry of Health's programme in the Province of Quang Ngai.
- 2. The project arose out of the work of Dr. Alje Venema, a Canadian who had been working in Vietnam

- on a Tom Dooley project and who, subsequently, from 1965-67, served as Canadian team leader. Canada agreed to construct and equip a two-storey clinic, including facilities for 80 in-patients, although it is primarily oriented to the treatment of out-patients. In addition, Canada undertook of provide a team of 5 experts who would direct and assist in the training of Vietnamese counterpart staff. Under the project agreement Canada also provides some vaccines and supplies and funds for the Clinics' operating budget during the period 1967-72.
- 3. Since late 1967, the Canadian team leader has been Dr. Michel Jutras. Dr. Jutras' assignment terminates July 6, 1971.
- 4. The Secretary of the Canadian Tuberculosis and Respiratory Diseases Association, Dr. J. W. Jeanes, is the consultant on the professional direction of the Canadian personnel and on the general operation of the clinic. He visits Vietnam about once a year and reports to CIDA on his finds. His most recent trip was in January/February; Dr. Jeanes has submitted a most encouraging report in which he recommends, among other things, a general "winding down" of the Canadian role and a handover to the Vietnamese of the project by mid 1972. Accordingly, agreement has been reached with Vietnamese officials to scale down Canadian participation in the project and to handover completely by mid 1972.
- 5. Maureen Brown, currently Director of Nursing, has been appointed new team leader for this final year. As of November '71, only Mrs. Brown and one other Canadian nurse will comprise the Canadian team in the project's final year.
- 6. For comparison, some 20,000 BGG vaccinations were being processed annually in the early years of the project whereas during 1970, upwards of 60,000 vaccinations were completed. This is due in no small measure to increasingly efficient procedures, which accord with recommended WHO standards, to which the Canadian team has contributed greatly.

CANADIAN ASSISTANCE TO THE PACIFIC RIM BILATERAL DISBURSEMENTS (\$000's)

Country	Grants			Loans				Food Aid	1	Total		
	68/69	69/70	70/71*	68/69	69/70	70/71*	68/69	69/70	70/71*	68/69	69/70	70/71
Malaysia		1,567	1,548	_	_	998	_	_	_	1,668	1,567	2,546
Indonesia	110	136	513				859	2,392	2,999	969	2,528	3,512
Thailand	907	1,069	1,078	643	187	89			_	1,550	1,256	1,167
South Vietnam		1,776	953	_		_	98	574	1,200	2,876	2,350	2,153
Laos	252	362	356			_			-	252	362	356
Cambodia	209	214	84							209	214	84
Korea	62	44	67	440	533	27	_		2,500	502	577	2,594
Singapore	532	535	552	_						532	535	552
Burma	47	146	119	_				1,726	2,800	47	1,872	2,919
Philippines	57	104	73				*******			57	104	73
J.S.P		_				_			-			
A.I.T			30			_	-		-	-		30
Prek Thnot	_	291	321	-	_		-				291	321
Hong Kong	26	20	25		Warmen's				-	26	20	25
Nam Ngum	458	649	700	-	-	_	_	_		458	649	700
Total	7,106	6,913	6,419	1,083	720	1,114	957	4,692	9,499	9,146	12,325	17,032

^{*}These figures are subject to revision when final audit is complete.

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THIRD SESSION-TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 17

WEDNESDAY, SEPTEMBER 22, 1971

Respecting

THE PACIFIC AREA

(Witnesses:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*The Honourable Allister Grosart, *Deputy Chairman*and

The Honourable Senators:

Belisle Macnaughton Cameron McElman Carter McLean Choquette McNamara Connolly (Ottawa West) Nichol O'Leary Croll Eudes Quart Fergusson Rattenbury Gouin Robichaud Haig Sparrow Lafond Sullivan Laird White

Lang Yuzyk-(30).

Ex Officio Members: Flynn and Martin (Quorum 7)

Orders of Reference

Extract from the Minutes of Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of the travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was-

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Tuesday, September 14, 1971:

With leave of the Senate.

The Honourable Senator McDonald moved, seconded by the Honourable Senator Fergusson:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate of more than one week.

After debate, and—
The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,

Clerk of the Senate.

Minutes of Proceedings

Wednesday, September 22, 1971.

(20)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 4.00 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Choquette, Connolly (Ottawa West), Fergusson, Lafond, Martin, Macnaughton, McNamara, Quart, Robichaud and Yuzyk. (11)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee; and Mr. R. Sandor, Office of Area Relations; Dept. of Industry, Trade and Commerce.

The Committee resumed its study of Canada's relations with the Pacific Area.

The following witnesses were heard:

Department of Industry, Trade and Commerce:

The Hon. Jean-Luc Pepin, Minister; Mr. Frank Petrie, Director, Pacific, Asia and Africa Affairs Branch, Office of Area Relations; and Mr. J. L. Mac-Neil, Chief, Pacific Division, of the same branch.

At 5.50 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes.

Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, September 22, 1971

The Standing Senate Committee on Foreign Affairs met this day at 4:00 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now four o'clock and I see a quorum present.

Last November, when we launched our Pacific inquiry, we had the considerable advantage of getting off to a very good start. The Minister of Industry, Trade and Commerce agreed to appear at our second hearing and discuss the whole range of Canada's economic relations with the countries of the Pacific. I know that all members of the committee will recall that excellent meeting and the frank and informative way in which Mr. Pepin and his officials fielded our questions. We have all referred back to that testimony again and again.

At that time Mr. Pepin also agreed to come back at a later stage to review further developments and resume discussion of a number of major issues. From the committee's point of view, I think that the timing of this particular meeting is relevant and ideal. This is the case because in mid-summer, as we all know, Mr. Pepin led one of the most successful Canadian trade missions ever to the People's Republic of China. In subsequent weeks, of course, the international economic system has come to one of the most important crossroads of the postwar era, with vital implications for Canada and its economic partners in the Pacific. Last week, Mr. Pepin and his colleagues discussed these multilateral issues and bilateral relations with their Japanese counterparts at the Japan-Canada ministerial conference held in Toronto.

All of these matters are, of course, of central interest to this committee, and we are most grateful that Mr. Pepin could arrange to appear at this stage to bring us right up to date. I might say that this is particularly true on a very busy day for you, sir; we are very grateful.

I will ask Mr. Pepin to introduce the officials accompanying him and then proceed with his introductory statement. After that, Senator Macnaughton has agreed to begin the questioning. Senator McNamara has also prepared a number of questions, and since he accompanied Mr. Pepin to China as a member of the group, I am sure they will also be of special interest.

The Honourable Jean-Luc Pepin, Minister of Industry, Trade and Commerce: Thank you, Mr. Chairman, for your very pleasant invitation and for the kind comments regarding my last appearance before your committee. Had you not already reached the pinnacle of success, being a member of the Senate, I would say to you that flattery might get you somewhere!

The Chairman: I think we have slightly divergent opinions as to pinnacles of success.

Hon. Mr. Pepin: I am accompanied by three of my distinguished officials: Mr. Frank Petrie, who is the Director of the Office of Area Relations for the Pacific Area; Mr. J. L. MacNeil and Mr. R. Sandor, both of the Office of Area Relations, but also known as members of the China Task Force, about which I will tell you more later.

On October 13, 1970, Canada and the People's Republic of China established, as you know, diplomatic relations. By February 1 we had an embassy operating in Peking and the Chinese had opened an embassy in Ottawa. Following these events we exchanged ambassadors, with our ambassador to China presenting his credentials in Peking on June 10, 1971, and his counterpart presenting his credentials in Ottawa on July 27. I am giving you these dates to illustrate the fact that we have not lost too much time.

The next link in the strengthening of relations between our two countries took place when on June 25, 1971 I led the first Canadian Government mission to the People's Republic of China. Bear in mind that the ambassador had been there only since June 10. I wish to compliment him on his fast adjustment!

The purpose of the mission, looking at it in economic terms, was to introduce the Canadian business community, through its elected representatives and the national trade and economic associations, to the trading opportunities in China. It was essentially—and I wish to underline this—an economic mission, but I would not say that the mission did not have an important political incidence. I do not think that one can always divide politics and trade too clearly. When you take, for example, the negotiation of trade agreements it is difficult to divide the two. The Chinese do not divide the two, so we had better not either.

The mission members included eleven heads of national associations, representatives of the Senate and the House of Commons, and here I bow to the presence of Senator McNamara, certainly the most distinguished member of the mission. There were also senior Government officials, including four deputy ministers. I would like to emphasize that the business members participated as representatives of economic sectors rather than as individual businessmen. In this context, the reports of their findings have been given the widest distribution throughout their respective organizations. You have seen in the press how most of them have reported either publicly or in private to their associations. That was the name of the game. They were not supposed to keep this information only for themselves as presidents of companies. They were supposed to share their knowledge with their colleagues in their respectives

The mission worked very hard and very well. I should emphasize that the press, radio and television reporting on the work of the mission was excellent. Politicians sometimes have reservations about the press, but in this instance the press rendered us a tremendous service. They sent back to Canada extensive, objective and intelligent reports on what was going on.

This first Canadian mission to China can be considered to have achieved its general objective of establishing close contact between Canadian and Chinese ministers, officials and business representatives in all spheres of economic activity. As stated in the communiqué issued at the end of our visit, I and my parliamentary colleagues, together with officials from Government departments, held friendly and constructive meetings with the ministers of foreign trade, agriculture and forestry, light industry, and with the vice-ministers of the metallurgical industry and the fuel and chemical industry.

The business members, in company with Ottawa based embassy officials, held a series of meetings with each of the seven state trading corporations responsible for China's export and import trade, and also meetings with the People's Bank of China and with the China Council for the Promotion of International Trade. In total, the Canadian group held some 25 separate formal meetings in the three working days they had in Peking. I do not know how many pounds Senator McNamara lost, but I personally have lost seven. That might be indicative of our activity!

The Chairman: One pound for each trade corporation.

Hon. Mr. Pepin: That is about it, and I would have gladly left more of my "excess baggage" there had I known that some good trade development might have ensued!

At the conclusion of our visit the two sides agreed that with the establishment of diplomatic relations, trade, economic and other relationships would be expanded. The two sides noted with satisfaction the many years of mutually beneficial trade in wheat between Canada and China. The Chinese agreed to continue to consider Canada first as a source of wheat as their import needs arose. There again, I must compliment Senator McNamara, and I am not being diplomatic. As you all know, the Chinese have a great deal of respect and gratitude towards "old friends"; and this is something that Senator McNamara might tell us more of because of his knowledge of the Chinese mind. They respect and they like to trade with people who were there first and who expressed confidence in them from the beginning; I think this was an important factor in the friendly attitude which was taken, especially in respect of wheat.

I invited the Minister of Foreign Trade, Pai Hsiang-kuo, to lead a Government trade delegation to Canada. The minister has accepted that invitation, but the exact time for such a delegation is yet to be arranged. The two sides also agreed to more frequent exchanges of missions in specific fields such as metals and minerals, agricultural products, chemicals, machinery and equipment, and power production. It was also agreed, in order to expand two-way trade, that exhibitions would be held in each other's country in the near future.

In summary, I would like to emphasize what I consider to be the three major accomplishments of this mission. Mr.

Petrie, who prepared these notes, has put them in a certain order and I do not agree with him completely with respect to the order, so I will put them in a different one.

The first one is the establishment of contacts. This to my mind, is the first result that was gained. The Chinese indicated that they would like consultations annually focusing on the following years' prospects for Sino-Canadian trade. The consultations would involve officials from Ottawa and Peking, or from our embassies, as the situation warranted. This consultation to me is the most important. We were given the rather extraordinary privilege of being informed beforehand of what their trading intentions would be for the year ahead. That is quite a good position to be in. I do not know whether or not they give it to some other countries, but I suspect not.

The second immediate result has to do with the Chinese preference for Canada as the first supplier of wheat. During the visit the Chinese indicated that they would be purchasing more Canadian wheat in 1971, and I am pleased to see this indication was realized when on September 14, 1971 the Chinese purchased a further 19.6 million bushels of Canadian wheat. This is in addition to the contract negotiated for 98 million bushels in Peking last October. This extra 19.6 million bushels represents about \$30 million, and I am quite sure this is most welcome in the Canadian western economy.

The third major accomplishment of the mission has to do with other Canadian commodities than wheat. The Chinese undertook—and I emphasize this—in the case of wheat to look first to Canada as a supplier. In the case of other products it is to consider Canada as a source for products they now import from other countries but not from Canada. Such products include a wide range of manufactured goods. In other words, what they are saying is, "We are buying a number of things from other countries that we could buy in Canada. We will let you know about these things"—an advance notice which I think is going to be most useful. To give an example, they buy paper board from New Zealand, Finland, Sweden, Japan, France, the United Kingdom and Italy, and they do not buy any from Canada. There is no reason why we should not be there. With this entrée we will have the possibility of competing with others in these sectors, where we think we have a competitive position.

Now let us talk about follow up. As you may know, I am obsessed at the moment with the words "follow up" and "follow through." I quote them on every occasion. I have learned to play tennis from books on "How to play tennis" by Vines Perry, Budge. These books have something in common. They all say that hitting the ball is interesting and important, but not really the most important thing; that following up after you hit the ball is the vital thing in tennis. If you just hit the ball it can go anywhere-left, right, centre, up or down although a limited way down, I presume—but it is only by following up, by directing the ball with the follow through, as they call it, that you give direction to the ball that you mark points. I am glad to say my department is also obsessed by this now, as you will see in the case of China. Yesterday or the day before, for example, we had a meeting in the department of the German mission—there were two missions to Germany last spring and summer, as you may remember, one on science and technology and the other on commerce. We

brought all the ministers of these missions together yesterday and discussed what has happened since then, what we intend to do from now on, where we think business and Government should concentrate their efforts, what products should be considered, what line should be taken, and so on. So at the moment we are obsessed by "follow through." The same applies to the Chinese mission, as you will see.

Since the return of the mission, we have established a China Task Force to be the focal point for trade and economic activity relating to China. This group is responsible for ensuring a co-ordinated follow-up to the potential opportunities which were uncovered by the mission during discussions. In view of the relatively short period of time which has passed since our return from China, it is too early to assess the full implications of our efforts.

I am pleased to state that considerable progress has been made in the following areas. First, agreement has been reached that the first annual Canada-China trade consultations will be held in Peking in early December. At this consultation, which will be attended by Ottawa based officials and our trade commissioner in Peking, it is intended, as I said before, to explore the Chinese import needs in the coming year and to review performance during the past year. All that information on commodities which will have been identified will be spread very rapidly to potential Canadian exporters.

The Chairman: Mr. Minister, is it fair to say that at that conference they will be discussing trade forecasts?

Hon. Mr. Pepin: That is the name of the game.

Mr. Frank Petrie, Director, Pacific, Asia and Africa Affairs Branch. Office of Area Relations, Department of Industry, Trade and Commerce: This is our expectation.

The Chairman: This is in December. How wide a range do you think they will be forecasting?

Hon. Mr. Pepin: I will come back to that in a moment. It is a limited one, for reasons that I will be giving. Perhaps Mr. Petrie will remember the question and think about it in the meantime.

The second development is the following. The Chinese have concurred with our proposal to hold a solo trade fair in Peking in August, 1972. The preparations for mounting this Canadian exhibit are well in hand. The Chinese have indicated that they will participate in a very big way in the next Canadian National Exhibition in Toronto. This type of exchange should contribute importantly to making each other aware of the products which can be exchanged.

The third accomplishment or visible result is that there have already been two incoming Chinese groups to visit Canada since my return from China, one to discuss grain and the other to discuss handicrafts, textiles, and light industry. As you know, the first has resulted in the additional wheat purchase which I have indicated. The purpose of the second was to familiarize representatives of the Chinese state trading textile corporation with the market in Canada for Chinese products, and also with Canada as a source of supply for such products as tyre cord.

A number of people in Canada, in Quebec in particular, are afraid that China might be sending huge quantities of textiles into Canada. The Chinese Trade Minister assured me of his understanding, and stressed that the Chinese did not wish to disrupt Canadian industry and unemploy Canadian workers. In his view, trade should be mutually beneficial and designed to complement rather than disrupt. As a matter of fact, I think the Chinese mission has been looking into a number of possible purchases of Canadian textiles. It could be rather amusing if instead of there being a danger of imports of Chinese textiles into the Canadian market this agreement led to substantial exports of Canadian textile goods into China. That would be a rather paradoxical result. I cross my fingers at this point and hope this will be the case, because the Canadian textile industry could very well take it.

We expect to see many more incoming and outgoing trade missions in specific fields, such as metals and minerals, agricultural products, chemicals, machinery and equipment and power production. These missions will be a major topic for discussions between ourselves and the Chinese when we consult with them in December.

To summarize, while it is still too early to assess the results of the mission and our subsequent activities, there are indications that two-way trade will increase. Such indications include the several hundred written inquiries from the Canadian business community, handled in Ottawa by departmental officials; and more have been received in our Peking Embassy. Mr. Petrie has told me that the Canadian trade commissioner has received 100 business letters in a week from Canada, which shows the interest this mission has generated.

There is reason to believe that this fall's Canton Trade Fair in October will see an increased number of Canadian businessmen, particularly exporters.

Statistics available for the first seven months of 1971 show non-wheat exports to have decreased over the same period of 1970. However, we are hopeful, and with good reason—Mr. Petrie might tell you more about that—that as a result of the economic mission this situation will be reversed. I have the figures here for the present situation, which I could put on the record if you wish.

The Chairman: Do you want to read them, or shall we take them as read?

Hon. Mr. Pepin: In 1970, Canadian exports to China were \$141.9 million, and excluding wheat they were \$20.4 million. The figures for January to July for 1970 were \$100.6 and for the same period in 1971 \$124.1 million. Exclusive of wheat, for that period in 1970 exports were \$15.2 million, and for 1971 \$9.1 million. Then, Canadian imports from China in 1970 totalled \$19 million. From January to July 1970 then amounted to \$11.7 million, and from January to July in 1971, \$13.6 million.

So they have been going up and we have been going down. We hope to reverse that situation in regard to Canadian trade. It should be noted that as the result of the various factors I have mentioned, Canada and the Canadian business community are in a good position to take advantage of opportunities for trade between our two countries. We should not, however, be unrealistic or set our expectations too high.

I think I said that on my previous meeting with you.

China is a developing country, and is not a significant market for consumer goods. China's economic policy is based on self-reliance. If you read the interview I had with Chou En-lai, this was the leitmotiv, self-reliance; that is, importing only what cannot be readily produced in China. They buy what they need, in line with what they can afford in terms of overall priorities. They decide how much they can spend on imports, they establish their priorities, and that is it.

For the Chinese, trade should balance but not necessarily bilaterally. So there are gains to be made, if I may be brutal, but at someone else's expense. That is fair. The latest indications are that their annual import requirements are in the order of \$U.S. 2 billion, most of which is supplied by Japan, West Germany, Australia and the United Kingdom. I believe we can meet this competition and we are encouraging Canadian businessmen to make every endeavour to break into the market. Given the current uncertainties in world trade, it is especially necessary that we develop markets for Canadian manufactured products, and China is one opportunity we do not wish to lose.

This is what I have to say by way of introduction. If there are points, Mr. Chairman, that your committee would like to raise, I would be glad to attempt to answer them.

The Chairman: Thank you very much, Mr. Minister. We certainly are very pleased tohave the extremely full description of your mission to the People's Republic of China. In addition to that, we would like to have some comments, as the meeting continues, about the recent ministerial meeting in Toronto with the Japanese Ministers, and also some comments relating to the international currency situation as it may affect the Pacific rim.

Hon. Mr. Pepin: That is a big order.

The Chairman: Yes, it is a big order, so we will leave it to the last. We shall now proceed with the questions. I have asked Senator Macnaughton to lead, and Senator McNamara will follow.

Senator Macnaughton: Mr. Chairman and Mr. Minister, I shall try to follow through on some of the comments that the Minister made. First of all, on behalf of all of us, I say that we are more than delighted at the second appearance of the minister before this committee. I know that there are many demands on his time, and his attendance at this meeting is very much appreciated. It is even more appreciated having regard to his having led the first Canadian Government economic mission to the People's Republic of China.

All of us know that one can lead a mission, but to have it result in such great success, both diplomatic and economic, is all to the credit of the minister, and those on his staff who with him carried out the organization. I should like to refer to the fact that the mission consisted, as the minister said, of eleven Canadian businessmen representing different factors in the industrial sphere, twelve Government officials, of whom four were deputy ministers, our honourable colleague here beside me, Senator McNamara, and a representative from the House of Commons. I think this is

almost a new trend in the formation of economic missions; and it is to be encouraged.

The minister referred to the 25 meetings which the mission held with Chinese ministers, and the seven state trading corporations, and finally, the pièce de resistance, his two-and-a-half hour interview with Chou En-lai, which was publicized across the country and certainly did a great deal to put in proper context the successful results of the very hard endeavours of everyone on the mission.

As I understand it, the net result was emphasis on twoway trade—which was obvious, but it is a good thing to put on the table. There was the recognition by the Chinese of certain sensitive areas such as textiles, the desire to expand trade between our two countries by holding trade exhibitions and periodic consultations, and, finally—and this is very important—the promise to consider Canada first as a source of wheat.

Mr. Minister, in full sympathy with your aims and objects, could we now be more pointed and refer to the imbalance of trade between Canada and China. I understand that in 1970 the exports amounted to \$141.9 million from Canada to China, as opposed to the importation of \$19 million. I understand, according to your own remarks, that the Chinese did not insist on balancing trade with Canada. But how hard, in fact, are the Chinese pressing for Canada to take more Chinese exports, and is this pressure likely to continue in the future as China develops a much greater export capacity?

Hon. Mr. Pepin: I do not remember—it may be that Mr. Petrie remembers it—the Chinese making a case before us for a bilateral balance of trade. I do not even remember their making a reference to it. Obviously they accept that there will be an imbalance, due to the fact that the import of wheat, a raw material, is of less importance, possibly, as a relative concept, than the export of manufactured products. They seem to be quite keen to export to us quite a number of things but not at all insistent on reaching any objective like balance of trade or fifty-fifty growth, or anything of that kind. No, they were not referring to that. Mr. Petrie might comment further on this.

It might be useful to know on the sort of thing that they would like to sell to Canada. As a matter of fact, we were quite open and, as you said, it was very much of a two-way street approach. As a matter of fact we provided them with lists of things that they could export to Canada—things that we need and that they were producing. We took a very forward-looking position on these matters.

Mr. Petrle: Mr. Chairman and Mr. Minister, the Chinese at all times in Peking emphasized that trade was a two-way street, and they suggested that in future missions and in trade talks we think in these terms. EVen for their textile mission to Canada recently, they were really thinking in terms of buying and selling. We looked upon it primarily as a Chinese selling mission. However, they were actually looking at Canadian tire cord and had purchased tire cord this year. So they do look upon all relationships in the trade field as two-way.

We look forward to importing a number of things from them. A number of our businessmen have approached us and expressed interest in buying things like shrimp, nuts the Chinese peanut is one of the best peanuts in the world—porcelain, a wide range of chemical products, canned fruits, meats, jams—this type of thing. We have three or four pages of items that have been given us by Canadian importers who have asked us to approach the Chinese with the list in the hope that we can expand both our import and export trade.

Hon. Mr. Pepin: And there are some minerals.

Mr. Petrie: Yes; tin, antimony et cetera.

Senator Macnaughton: Getting back to textiles again, because it is a factor that considerably disturbs a portion of the people of this country, with the revaluation of the Japanese yen and with greater export capacity from China, do you think there is likely to be a shift in the importation of textiles from Japan to China into Canada?

Mr. Petrle: I think it is very important to bear in mind that the minister was given an assurance by the Chinese trade minister—and I have received at the official level a similar assurance from Chinese embassy officials here—that it is not their intention to disrupt Canadian industry or to cause unemployment among Canadian workers—and we take them at their word.

They certainly have an interest in exporting textiles to this country. There are certain textiles which, if exported to Canada by the Chinese in any huge quantity, would cause hardship and disruption in the Canadian economy. However, there are textile items which I think they can sell here in competition with the Japanese and other suppliers which would not harm the Canadian industry in any way.

Hon. Mr. Pepin: You might want to know that since 1961, if my memory serves me well, we have had a form of voluntary restraint arrangement on textiles with the Chinese.

Senator Macnaughton: Temporary.

Hon. Mr. Pepin: Yes, temporary. Since 1965—this is just a broad range of dates—we have had an indicative list. We let them know beforehand what they could export to Canada without causing the sort of injury we were referring to. As a matter of fact, as a general proposition, they have not used the amounts available, which tend to make me believe that their capacity might not be as great for a number of years as might be feared.

Senator Macnaughton: Mr. Minister, I know that it is always easy to report something or to say that something is reported, but you are reported as saying that the Chinese officials had guaranteed a fully competitive position for Canada for the export of forest products and minerals. In view of the American currency situation, which is theory makes American exports much more competitive, as opposed to Canadian, is there likely to be a shift in Chinese purchases to the States as opposed to purchases of Canadian raw materials such as forest products and minerals?

Hon. Mr. Pepin: I really do not know. I have assured that sooner or later there would be a break in Chinese-American relations. This is obviously on the way now. I would think that it would take a number of years, however, before the whole thing is streamlined, harmonized, painted over, and so on and so forth. Consequently we would

appear to have an advantage of a number of years in which to take a position in the Chinese market. The Americans themselves are liberalizing their export regulations to China, which would seem to indicate that they also have this market in mind.

Senator Connolly (Ottawa West): Do they export now?

Hon. Mr. Pepin: No, nothing. But they are making proper preparatory work, which is useful to us also because it makes our own exports to China easier.

Mr. Petrie: We should recall the conversation the minister had with Chou-En-lai when the Chinese premier made it quite clear that they regard Taiwan as an integral part of China, a Chinese province, and, as the premier put it, until the American presence is no longer in Taiwan there can be no normal relationship between China and American businessmen. For this reason, until relations are normalized over Taiwan, we can expect no real American competition in this area.

Senator Macnaughton: In other words, we have been there, and the Americans are waiting for their visas.

Mr. Potrio: That is right. As the minister put it at one time, it takes two to tango. The Americans are willing to trade with the Chinese, but the Chinese as yet are not willing to trade with the Americans.

The Chairman: At the forthcoming December meeting you will be coming to some agreement on the list that the Chinese will forecast they want. Perhaps the minister could discuss this aspect at this time?

M. Petrie: Of course, China is a planned economy. The Chinese plan their imports in advance. They will now be planning their imports for the coming year. We would like to ensure that we can match, as much as possible, Canada's export capabilities with China's import needs. In our department we have got together all of our experts in the various commodity areas and have made a list of the products which we think we can export anywhere, particularly to China, on a competitive basis. We want to put this list before the Chinese and explore with them the possibility of moving these products into China, in competition with other suppliers to the Chinese market such as the japanese, Europeans, and others.

Senator Macnaughton: There was also some discussion about China looking to Canadian suppliers in future for machine products, transportation and communication equipment. I believe your expression was that it had not been firmed up when you got back. Has there been any change in the situation, any new developments?

Mr. Petrie: This was a list of products agreed to by the Chinese, where they could look forward to increased trade with Canada. They foresaw increased imports from Canada and, consequently, they would encourage the exchange of trade missions in these particular areas. We will be discussing this aspect with the Chinese in December. We will be proposing, possibly, a trade mission on metals and minerals, on certain chemicals, and on transportation equipment, and we feel quite sure that the Chinese will co-operate entirely in seeing that either inward or outward missions go forward in these particular areas.

Foreign Affairs

Senator Macnaughton: What are the latest developments, or facts with regard to the exchange of trade exhibitions and periodic consultations?

Mr. Petrie: The Chinese will definitely be exhibiting in the Canadian National Exhibition next year. From our most recent discussions with the Chinese, it appears that they will be participating in a very big way, that they will be a major participant at the Canadian National Exhibition. As the minister has mentioned, they have also accepted that Canada should have a solo fair. That is, we will have a Canadian fair in China next summer. It will be in Peking. That is really quite an honour, because there is a long line-up of countries wanting to have solo fairs in China. Normally, China invites a few state trading countries and a few western countries to exhibit annually. We have been given the honour of being one of the first western countries to go into Peking in a big way with a solo Canadian fair next August. I believe that is the date.

Senator Connolly (Ottawa West): Because of the fact that they do trade through government agencies, what is the advantage of a fair, if the agency itself is the only person participating in the foreign trade?

Mr. Petrie: It is true, sir, that the trade is conducted entirely through seven state trading corporations, but nevertheless there are end users, and these end users are after the state trading corporations for certain types of products.

You do have all of the other countries, such as the Europeans and Japanese, leaning on the state trading corporations in order to try to get their own machinery in. We would just like to put on the floor in Peking Canadian machinery and equipment in order to demonstrate that we have as good machinery as and can compete with these other countries and can supply the needs of the Chinese. The situation is not that much different, really: they are purchasers, they are businessmen, and they are looking for the best possible deal.

Senator Connolly (Ottawa West): So the users put pressure on the state trading companies; perhaps you are not talking about the small consumer but about the big users.

Senator Macnaughton: Surely there is also the question of the comparison of products from one country as opposed to another, and the refinements that one country can give, which are better than those of another country.

Senator McNamara: Mr. Chairman, the policy of China with respect to these fairs is similar to the policy adopted by all communist countries. That is their way of doing business. In all eastern European countries they have trade fairs, and in addition to having people come to the trade fairs to indicate what they have to sell, the trading corporations are also very interested in what the businessmen can indicate is going on. They use the fair as a kind of forum to get to know what the trade world is like. That is not confined just to China. All communist countries follow that policy.

Senator Connolly (Ottawa West): I realize that, but this committee has never had this kind of answer before. It is very interesting to know why a fair in a country which does trade through state agencies can do some good. You

can understand why a fair would do some good in a free economy where all manner of consumers can be influenced directly, but in this case it is necessary to influence the people who control the international trade for that country.

Hon. Mr. Pepin: We do the other type of things as well, senator. We bring into Canada some of the officials of the state trading companies. In fact, I have just now been to the opening of the exhibition of forest equipment. At the moment there are four incoming missions visiting that exhibition; two are from the Soviet Union, one is from Latin America and one is from Malaysia, Indonesia and the Philippines. That is just an indication of how we bring buyers into Canada. I presume that the two groups from the Soviet Union are in the same category of end users that we are trying to influence so that they, themselves, will try to influence the state trading companies which, in turn, will buy our equipment.

Mr. Petrie: In support of what Senator McNamara has said, it is important to note the significance of the Canton fairs which take place every fall and every spring. No doubt you have heard of them. It is estimated that from 40 to 60 per cent of the total Chinese export and import business is done through these Canton fairs. So they do rely very heavily on the fair as a vehicle for moving products.

Senator Macnaughton: Mr. Chairman, the question had a second part to it concerning periodic consultation. With whom, how frequently and at what level would the consultations be held?

Mr. Petrie: We purposely left that vague in the communique so that we could have consultations take place at the ministerial level, if necessary, or at the official level, if it was felt that ministers need not be involved. The consultation taking place in December will be the first such consultation and we feel that at this time it can be left at the official level owing to the fact that the minister has just returned from discussions with the Chinese minister.

Senator Macnaughton: I understand there was some discussion about a commercial air link. Could you tell us what is the present status of the negotiations and what the potential competition might be?

Hon. Mr. Pepin: As you may have read in the press, we were all a bit surprised that Mr. Chou En-lai made his announcement during the interview he gave us. I had been mentioning that subject as an element of great interest to Canada and I had been suggesting that the proper authorities, being on our side, a combination of External Affairs and the Department of Transport, would get together with the Chinese officials. Thus the approach taken by Mr. Chou En-lai was very welcome, since he accepted the principle and even indicated what the route should be. But, of course, this is subject to further discussion, and Mr. Sharp and Mr. Jamieson have told me that they are about to enter into a discussion with the Chinese on that.

Senator Macnaughton: Mr. Chairman, there are many other questions I should like to ask, but I will give way to other senators at the moment.

Senator McNamara: Mr. Minister, I was particularly interested in being here this afternoon because I wanted to be sure your views on the success of the mission were complementary to my own as I expressed them in the Senate chamber last Thursday. I do not wish to embarass you by referring to the tributes I tried to extend to you at that time; therefore, I will not bother to go into that.

Hon. Mr. Pepin: Please send me a framed copy of your remarks.

Senator McNamara: All right, and I will put the same thing on mine as you did on yours: "We are looking for better times". I do not want to take up too much time by directing questions to the same people I was associated with on the mission, so I will ask just one or two short questions. As the minister indicated, there is a necessity of a follow-up. The success of any mission depends on the results you eventually get, and follow-up is needed. I wonder if the minister, or Mr. Petrie, can give us any information regarding further Canadian business missions that might be visiting China soon. Have any missions been planned, to your knowledge, since we were there? Are there any individual business firms that are setting up or have applied for visas?

Mr. Petrie: Apparently there are several hundred. The Canton fair takes places on the 15th of October and we understand that there are many Canadian businessmen interested in going. We have no idea of the actual number yet. Both Peking and our office expect that it will exceed by far last year's.

Senator McNamara: So you believe there will be a substantial increase this year. That really answers the other question I had regarding the number of visas approved.

Mr. Petrie: Sir, this knowledge would only come from talking to individual businessmen, but we have met a lot of businessmen who have told us they were going. They have telephoned us and said that they had visas.

Hon. Mr. Pepin: How many companies have been in touch with you since then?

Mr. J. L. MacNeil, Chief, Pacific Division, Pacific, Asia & Africa Affairs Branch, Office of Area Relations, Department of Industry, Trade and Commerce: Over 200 companies have been in touch with us, sir. These have been written inquiries. We have received many more telephone inquiries, but we did not keep track of them. There were other inquiries made directly to our embassy in Peking, some of which would have been companies that had already contacted us.

Senator McNamara: Mr. Chairman, on the subject of wheat, I do not think I particularly wish to embarrass the minister by asking him questions. I taught him something of what he knows about wheat. He was a very apt student. I will pass now, in case my colleagues wish to ask questions.

Hon. Mr. Pepin: Senator, may I ask you a question? What do you think the future of this market is? Do you think that we are in there for good? I ask this, because you will recall that when we were talking with the Chinese we were asking that question, and, repeating what you had taught me a few years ago, I was trying to bring them to the idea

that there would be a system by which they would import from Canada to feed their coastal cities, then using their own wheat to feed the inland areas.

On this subject I may say that I have heard different answers; some Chinese authorities have told me that this was not their plan, while others have told me that it was so intelligent that they obviously had thought of it and sooner or later would be implementing it, while still others have told me that this in fact was their general philosophy. But I do not know what your experience is on that particular subject.

Senator McNamara: I am very optimistic about the longrange potential of our wheat trade with China. I am not saying it will be the same every year or that they will have to come to us, but the geographical location of the country with wheat being consumed in the north and with our Vancouver area being so accessible, and with the rice consumption in the south, I am quite satisfied that they will continue to turn to Canada. I was most impressed by the statement that they would first turn to Canada. As I said in the Senate the other day, that does not mean that they will buy all their wheat from us. They told the Australians that they would look at their supplies. After all no buyer is going to say, "We will buy from you regardless of price or quality." But when any country such as China says, "We will look to you first," I think it is very significant. I think in making that statement, Chou En-lai was telling the rest of the world through you and was taking pains to let people know that they have confidence in their good relations with Canada, and that is why they will continue to turn first to their friends rather than go and deal with other people. I am very optimistic not only about the success of the mission, but particularly in the field of cereals. If we handle ourselves correctly, I think they will continue to be good customers of ours over the years.

I am sorry, Mr. Chairman, I seem to be making a speech.

The Chairman: I think it is a first-rate statement to have on the record.

Senator Macnaughton: Mr. Chairman, we have taken note that China has said that she will consider Canada first as a source of wheat, and a few weeks after making that statement it was stated that they will give the Australian nation fair and equal treatment. Now there is no inconsistency there, is there? It simply means there are more sources of supply than one.

Hon. Mr. Pepin: Well, the line I have taken is the one Senator McNamara has taken—they said that they will come first to Canada. It does not mean that they will not go second to Australia or to France or elsewhere, but they will come first to Canada. So if we are competitive and if we have the good wheat which they want, then we will get first choice. As you know, the Wheat Board is always competitive so we may safely presume that on most occasions we will make the sales.

I am sorry, Mr. Chairman, but I have to leave temporarely because I have to answer the bell.

Senator Fergusson: I think Mr. Petrie can answer my question. The Minister mentioned that China is a developing country and I was thinking about the things that Canada has done for other developing countries with

which we are in contact, such as Canadian Executive Services Overseas. In that service, as you know, retired executives have been going to many countries and helping them by explaining about Canadian expertise in various fields and of course sometimes we have had people who are now in business doing this when they are specialized, and CIDA has also been helping in this. Do we consider China in the same way as we consider these other countries? Have we arranged to give them any such help, or do they in fact want it? Perhaps they think they do not need it. I should like to know if we have this type of arrangement with China.

Mr. Petrie: Senator, you ask if they want help and I would say no. The Minister referred to them as a developing country, and they certainly are in the sense that they have a very low standard of living. But they are working very hard. I do not think we could refer to them as a developing country in the way that we normally refer to developing countries. They will not accept any aid or anything that smacks of aid; they will not even accept long-term credits. So therefore you cannot place them in the same category as those we normally consider to be developing countries. They are however at a very early stage of development when it comes to most industrial areas.

Senator Fergusson: Well in some developing countries we provide capital to help them develop themselves. Would they want that?

Mr. Petrie: No, they do not want that. The Minister mentioned the policy of self-reliance, and they really mean this. This is a very basic matter for them. They will not accept aid, as I have mentioned, and they will not accept foreign capital because this runs contrary to their economic system. Their policy of self-reliance is very real.

Senator Fergusson: Even though it might improve their standard of living if they were to accept assistance, they still do not want it?

Mr. Petrie: This is their position.

Senator McNamara: If I could supplement what Mr. Petrie has said, I fully concur in what he has said. I have never been in a country so averse to the thought of considering aid or relief of any kind as China.

I would think that possibly the worst thing you could do would be to offer such assistance. I remember attending one discussion with the minister regarding know-how, et cetera, and Canadian personnel assisting in China. They reluctantly said: "Well, maybe if we let them in for a few months to show us how to use this equipment, but we do not need any expertise from other countries. "I am very strong on this point they stiffen up right away when it is suggested that they be helped with relief or technology.

Senator Fergusson: That is very interesting. Mr. Petrie, you spoke of peanuts, do we now buy many peanuts from China?

Mr. Petrie: It was the biggest item in the trade; we were importing something like \$5 million worth in 1969 or 1970, one recent year. Then the trade just tried up. Our processors really would like to obtain Chinese peanuts.

Senator Fergusson: Do you know why it dried up?

Mr. Petrie: We have been trying to find out and have been informed that they are using the peanut for domestic oils. However, that is a very expensive source of vegetable oils. We would like to sell them our rapeseed and import their peanuts. These are the sort of questions we will discuss in detail with them. I think you will appreciate that when our mission was there we were talking in general temrs of the chemical industry as such, or machinery as such. We would like to get down to details such as this in our next meeting.

Senator Fergusson: This has nothing to do with trade and commerce, but your mission is the only one which has been able to enter China and notice what is going on. When an exchange of fairs takes place, will these be only trade fairs or will the time come when we will have cultural fairs, "in-and-out missions", as the minister termed them?

Mr. Petrie: I would certainly think that we will be moving into this area. I personally do not have great knowledge of it; I know that at the fair we will hold in Peking next year the Department of External Affairs will have an exhibit which will go beyond the trade field. However, our interest is strictly trade.

Senator Fergusson: Is anything at all planned beyond just trade fairs?

 $\mbox{Mr. Petrie: } \mbox{I am afraid I cannot answer that, but I would imagine so.}$

The Chairman: Does this have reference to the Canadian National Exhibition?

Sengtor Fergusson: Yes.

Senator Connolly (Ottawa West): I notice in this material that in 1970 the value of exports from Canada to Japan was approximately \$793 million, to Australia, \$197 million and to China \$141 million. Therefore, China at present is our No. 3 customer in the Far East. Is there any indication of the rate at which this may grow? Is it the type of trade in which you expect spectacular growth, sustained at a high level? Can you make an assessment of the prospects?

Mr. Petrie: Are you referring specifically to China, rather than the other two?

Senator Connolly (Ottawa West): I am speaking primarily of China. Perhaps it would be easier to put it this way: Will the value of our exports to China reach or exceed the value of our export trade with Australia? Will it ever reach the value of our export trade with Japan as it was in 1970?

Mr. Petrie: First of all, we must regard the 750 million consumers in China in a much different light than we would look upon the 14 million consumers in Australia. The latter, of course, are much the same as we are in terms of purchasing power and we are doing big business in Australia when the small population is taken into consideration. The future there will depend to a great extent on whether we can retain a preferential trade link with Australia after Britain enters the common market. We will be directing our consideration to this matter during the coming months.

The minister has mentioned on a number of occasions that the primary objective in Japan is to break through into the manufactured goods area. At the recent meetings in Toronto he mentioned that he would lead an economic mission to Japan early in the New Year. We hope to take with us a list of the products which we know we can sell internationally in competition with the Japanese in the third market. We will inquire of the Japanese why we cannot sell them in the Japanese market. There must be some so-called non-tariff barrier preventing us. We fell that by exploring that we might be able to increase our trade with Japan significantly.

We cannot point to any non-tariff barrier in the case of China that would prevent us entering the market. Theirs is strictly a state-trading economy and we must achieve a good relationship with the traders and persuade them to rely on and look to us as a source for various products.

Senator Connolly (Ottawa West): What percentage of our exports to China are manufactured goods and what percentage are from the resource industries?

Mr. Petrie: Of course, the wheat really smothers pretty well everything at the moment. If the value of the wheat exports were subtracted from the figure of \$141 million it would be reduced to \$20 million, much of which is in the raw material sector. We have sold China so far this year in the non-wheat area aluminum pigs, wood pulp, tallow, nickel, zinc blocks, tire fabric, which I mentioned earlier, x-ray and related equipment and parts.

I must emphasize that our relationship is really a very new one except in wheat. I believe Senator McNamara would support that. The present relationship has only existed with China since last October and our Embassies have existed only for a few months.

Senator Connolly (Ottawa West): Do you expect a spectacular increase? If so, is it expected to come slowly or quickly?

Mr. Petrie: We will be in a much better position to answer that question upon our return from Peking in December. However, I would hope that with the great interest shown on the part of Canadian businessmen in the last month or so there will be a significant increase in the non-wheat sectors.

Senator Connolly (Ottawa West): And then further progress will depend upon development both on the Chinese and on the Canadian side, I take it.

Mr. Petrie: Yes.

Senator Connolly (Ottawa West): Thank you very much for that information. I just want to ask one other question. How quickly are the Chinese expected to industrialize? In other words, are they going to buy our raw products and process them there, and will they have the kind of knowhow that is required to do this economically? If so, are we to learn any lessons from them with respect to processing raw materials and industrializing to a greater extent than we are now? That second part is perhaps out of your realm, but perhaps you have some impressions.

Mr. Petrie: Like the minister, I was only there for a week so I am certainly not an expert on China. My impressions

are that their problems are much like our own. They are very much interested in the fields of transportation and communication. China is a large area and they seem to be giving priority to areas like transportation and communication, and, of course, they are very interested in steel. I am really just giving my own impressions here, but with their population such as it is they are not as interested in labour-saving devices as we are. They do not have to be; they can rely more on their labour force; they have huge quantities of labour.

Senator Connolly (Ottawa West): They are very labour intensive.

Mr. Petrie: Very labour intensive, so that often the pressures are not there for them to modernize equipment, such as would be the case here. We saw equipment in plants in China which would be very old and it is still functioning. It would be very difficult to say that we can learn much from them in the industrial area. I think they are out to learn from others in this area.

The Chairman: I think Senator Connolly has raised some very interesting points. I know Senator Robichaud has a question, but may I just ask Mr. Petrie a question relating back to some of the points raised by Senator Connolly? It relates to these forecasts. I think it is very important that the Chinese have indicated that at this forthcoming meeting they are going to provide a short list or a long list, whichever it may be, of what will be required by way of imports. I also think it is very interesting that Mr. Olson, the Minister of Agriculture, has received from Japan a forecast of their agricultural requirements for the next fiscal year. At your forthcoming meeting early in the new year, in Japan, do you think it is possible that you can arrange to have a Japanese short-list andor long-list provided?

Senator McNamara: Japanese, or Chinese?

The Chairman: Japanese, because the situation we have now, Senator McNamara, is that they have indicated that they will give us the year's forecast of their agricultural requirements. What I am wondering is whether or not we can get an amplification of that to cover all other imports into Japan, as we are going to receive from China, according to indications. Is this possible?

Mr. Petrie: I will let Mr. MacNeil answer that one, but I think we must bear in mind the fact that the two countries are different. When we are dealing with China we are dealing with a state trading country, and it is much easier for them to give us such an indication than it would be for Japan where we are dealing with private industry.

The Chairman: And yet we have received this assurance or indication as it relates to agriculture.

Mr. Petrie: We know that the Japanese have controls, but I think the greatest control would be in the agricultural area, so it might be easier for them to give us such an indication with respect to agricultural requirements.

The Chairman: Yes.

Mr. L. MacNeil: It should be mentioned that the Japanese are and have been attempting to rationalize what they

consider to be the non-competitive parts of their agricultural economy. Sectors of it present serious social problems. They have done detailed studies on agricultural production across the board and in individual sectors and this allows them to say, "This year we would hope to move so much production out of rice and supplement it with imports," and other sectors do the same thing: In the area of raw materials they have been able to project that they will need x million tons of coal in the year 1975, and they would then indicate to Canada, to Australia, and others, these total requirements. However, as you get into the type of products that we would hope to discuss with them at this forthcoming meeting in January, we would argue that we are not receiving sufficient attention. We would not be asking them how much they expect to import but rather we would be saying, "Whatever you expect to import, as things stand now, you are not importing enough from Canada."

The Chairman: Thank you. Senator Robichaud.

Senator Robichaud: If I understood the minister correctly, China imports from Canada goods amounting to approximately \$2 billion dollars in U.S. funds. He also stated that we actually have what he called the "China task force" which is exploring China's import needs. What are the main import commodities which are included in this \$2 billion?

Mr. Petrie: The minister did mention \$2 billion. The total trade has been about \$4 billion; \$2 billion each way during the past decade. In the last year it went up half a billion, but roughly that is the figure. Their total imports are just around the \$2 billion mark. I might say that it is very difficult to get these statistics because China does not publish statistics, but this is the figure that we use.

We have a list of products which China imports in considerable quantities from countries around the world, and we feel we are competitive in a number of these areas, and yet we have not up until now made any sales whatsoever. For example, take synthetic rubber. China is importing considerable quantities from Japan, the United Kingdom, Benelux, the Netherlands, but nothing from Canada. We just made a sale of pulp recently, but until this recent sale Sweden and Finland had been the suppliers of pulp and paper.

The Chairman: Was the pulp and paper sale of any size?

Mr. Petrie: Yes, it was \$1 12 million.

Senator Macnaughton: Wood pulp or paper, or both?

Mr. Petrie: Wood pulp.

The Chairman: From the west coast?

Mr. Petrie: Yes. In other words, there are a number of areas like this. I will just mention a few: paper and paper board, which the minister has already mentioned, kraft paper, iron and steel, wire rod, iron and steel bars, iron and steel plate, railway rails, iron and steel tubes and pipes, copper and nickel. We have sold considerable quantities of nickel in the last year or so. We have now made a breakthrough on aluminum. There is also rope, piston engines, machine tools.

Senator Connolly (Ottawa West): When you say "break-through," it means you get a new area for sales?

Mr. Petrie: Yes.

Senator Connolly (Ottawa West): I take it that in dealings with a country that operates through state trading agencies there is a heavier onus on the Department of Industry, Trade and Commerce to act as an honest broker between Canadian industry, on the one hand, and the state trading agency, on the other, but you cannot make the deals.

Mr Patria No

Senator Connolly (Ottawa West): It has to be done by the actual producer or his organization.

Mr. Petrie: That is right. When i refer to a breakthrough, I mean we, Canada—

Senator Connolly (Ottawa West): I realize that, but I want to emphasize this point, because you now have a different kind of ball game to play with a country where a state trading agency operates, in contrast to the role that you play in promoting trade between two countries where the free economy operates.

Mr. Petrie: That is right, sir. By using the word "breakthrough"—

Senator Connolly (Ottawa West): It is a good word; it is the right one.

Mr. Petrie: I was thinking of Canada as a whole. I think the minister made a breakthrough, if I may use that word again, when he got from the Chinese an undertaking that they would look to Canada as a source for these products, the ones I have just listed.

Senator Connolly (Ottawa West): Now that you have returned, Mr. Minister, may I say that your officials have done very well.

Hon. Mr. Pepin: That is why I left without worrying!

Senator Connolly (Ottawa West): You did very well yourself.

Hon. Mr. Pepin: Mr. Petrie has been one of the spark plugs in this mission, and he did tremendously well in preparing us for the trip. The documentation we had was first class.

Senator Quart: Mr. Minister, you mentioned that there will be a fair at Canton on October 15, and Mr. Petrie said that hundreds of Canadian firms have inquired about the feasibility of going there. Will it be as difficult for them to get visas as other people? Do you think it will be easy?

Hon. Mr. Pepin: The question of visas is a very special one. Up to now the Chinese have not been allowing free travel within China. It means that for every group of people that goes to China the Chinese provide someone to accompany them, translators and so on, so obviously they have to limit the number. This is the difficulty.

Senator Quart: But these Canadian firms, if they go, will be able to get through?

Hon. Mr. Pepin: Of course.

Mr. Petrie: You really do not just decide to go to the Canton Fair; you seek an invitation, and once you have received the invitation it is an indication that the Chinese are interested in discussing your product with you, or interested in discussing with you your proposal to buy from them.

Senator Quart: Just to follow through, if I may continue with this game of verbal tennis, have you heard of one of these Canadian companies who have requested invitations?

Mr. Petrie: Yes. When I say that we expect to see hundreds of Canadian firms over there this fall, it is because we have been hearing that many are getting visas. Once you get the invitation the visa follows automatically.

Senator Quart: How do you apply for the invitation? Is it through External Affairs?

Mr. Petrie: No, you can write to the Chinese Embassy here in Ottawa.

Senator Quart: Not that I am intending to go.

Mr. Petrie: Is this for a visa or an invitation?

Senator Quart: For an invitation, if you need an invitation.

Mr. Petrie: You can write to the Chinese Embassy here, or write to one of the seven state trading corporations in China and just indicate your interest.

Senator Quart: I was thinking of if I wanted to go to sell products.

Mr. Petrie: We will help you as much as we can!

Senator Quart: It might be a very good idea for me to go, since the minister lost seven pounds!

Senator McNamara: If I may supplement the answer to Senator Quart, it is interesting to note, as Mr. Petrie says, that you can go to the Canton Fair only by invitation, but when an invitation is received the visa automatically comes with it. That is also an indication that they are interested in your particular product. The invitations are not granted freely. As a matter of fact, in the last few years British firms with people operating in Hong Kong have been excluded from the Canton Fair; the Japanese have been limited to only a certain number of businessmen; they control it very closely.

Mr. Petrie: Of course, there are accommodation problems in Canton, and they try to share the accommodation around.

Senator Quart: I suppose since momentarily we are good friends they will probably be very generous.

Senator Connolly (Ottawa West): What is the value of British export trade compared with ours?

Hon. Mr. Pepin: I know the Japanese figure; it is \$800 million two-way, which is very high.

Senator Connolly (Ottawa West): We talked about levels of trade while you were out, Mr. Minister, but we did not

refer to the British. They have had diplomatic relations with China for many years now.

Mr. Petrie: British exports to China are \$107 million.

Senator Connolly (Ottawa West): That is U.S. dollars?

Mr. Petrie: Yes.

Senator Connolly (Ottawa West): That is not much better than ours now.

Hon. Mr. Pepin: No, it is lower.

Mr. Petrie: But they do import from China \$80 millionworth of goods.

Senator Connolly (Ottawa West): In 1970 our exports were \$141 million.

Hon. Mr. Pepin: A lot of that was wheat. Not that wheat is not a good export.

Senator Robichaud: Would you have any idea of what they consist? The imports from Britain in 1969 amounted to \$150 million. Of what did they consist?

Mr. Petrie: We anticipated this question but only on the way to this meeting. We will be very glad to get this information for you. I think it is in machinery and transportation that the British have been important.

Senator Robichaud: Would it be the same thing with West Germany?

Mr. Petrie: My colleague reminds me that there have been some Canadian metals moving through the London Metal Exchange.

Senator Lafond: Senator Connolly established a moment ago that in dealing with state trading companies, particularly in view of the Chinese philosophy on trade and the maintenance of their own affairs, on their side there is much more of a political content in making the decision to buy, which means a closer involvement of the Department of Industry, Trade and Commerce in the dealings of Canada as a whole with China. At the moment our total trade with China is about \$150 million annually, and we have been told the Chinese are not too concerned with achieving a balance of that trade with Canada. Projecting that and assuming we increase our trade in the next decade to \$300 million or \$500 million, obviously at that time they will be much more concerned with the balance of trade than they are now. If in that \$300 million of trade we do with them there is \$150 million or \$200 million of wheat then obviously we as a country will want to sell that wheat, and will want to some extent to help China establish the balance of trade with us that they are aiming at.

My question is this: At that point, will we rely on Chinese salesmanship to achieve that balance of trade or will it require us, or would it be the policy of the department to try, to persuade Canadian potential purchasers of Chinese goods to do so in order to ensure the sale of our wheat?

Hon. Mr. Pepin: We are conscious of the fact that a very unbalanced balance of trade is not too good for our own exports, and we are trying to help them as much as we can by inviting them to come here; by helping them, as you

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have seen, with lists of goods that we think that they could market in Canada without disrupting anybody else's domestic market; also, by getting them acquainted with Canadian importers. I might add that one of the distinguished members of the mission was the president of the Canadian Importers' Association. So we have been trying, as well as we can to help them market their products in Canada.

Obviously, we cannot take it, as a general position, that the main role of the Department of Industry, Trade and Commerce is to help other countries market their goods in Canada, but we are quite eager to support them in terms of getting them acquainted with the market, and that sort of thing. Mr. Petrie may add to that.

Mr. Petrie: I would add that their presence here in the Canadian National Exhibition, which we certainly welcome, is another indication of a way that they can increase their exports here. We certainly expect that, at the annual consultations in December, they will also want to review their performance in this market and how it can be improved. I am certain that they will want to get into that as well as we will.

Hon. Mr. Pepin: Senator Lafond, you have raised a very interesting subject.

Senator Latond: That is why I waited until the minister returned before I brought it up. I agree that assisting the salesmanship of the Chinese is part and parcel of the function, in view of the overall object of selling our goods and wheat there. Will the Government of this country reach a point where it employs some sort of gentle persuasion to tell the people, "Please buy Chinese"?

Hon. Mr. Pepin: It is difficult to do that for one country, because all our old friends would come up and ask why it is that we do not do it for them. You have brought a case of CIDA to my mind which provided funds for the analysis of the Canadian market for a developing country. These are things that are being done now. That is why I said it is impossible for the department to say it will add to its present function a whole section of 125 people devoted to the idea of fostering foreign imports into Canada. We help whenever we can, and when we think it is in the Canadian national interest.

The other problem that you raise, which is even more monumental than that one, is to what extent are we preventing the export of processed and manufactured products in foreign countries by exporting such colossal quantities of raw material. That is a big one. We try hard to reconcile these things.

When I was in Iran, I had the privilege of a long interview with the Shah. We were talking about that, and he said to me: "When we are negotiating with a country we always say that we must 'ex-oil". In establishing their balance of trade they exclude oil because that is something other countries need. Sometimes I am tempted to do the same thing, for example, when we are negotiating with the Americans on surcharges! But "they" say it is not fair!

However, there is something in the idea, which also appeals to $Mr.\ Kierans.$

Senator Connolly (Ottawa West): What about the export of production machinery to these new countries? I am sure

that gives you some concern too, because as they build up manufacturing capacity with our production machinery, I suppose that to a certain extent they reduce their purchases of finished products from Canada.

Hon. Mr. Pepin: The answer is that they are going to buy it somewhere, anyway. If they do not buy it from us, they will buy it somewhere else. This problem occurs every day. For example, Canada helped in the building of newsprint plants in Chile, and since then we have had to compete with the Chileans in the newsprint market. Again if we had not done it, someone else would have done it.

Mr. Petrie: I would add, of course, that once you do sell machinery and equipment you are supplying spare parts for a long time. It can be a very important part of the business.

Senator Connolly (Ottawa West): I remember raising this with Mr. Mitchell Sharp, when he was Minister of Trade and Commerce and he said they want sales too and, as Mr. Pepin has said, if they do not buy from us they will buy from someone else. We might as well get the sale.

Senator Yuzyk: There are two fields in which I wish to ask questions. The first one will be directed to Mr. Petrie. Just a while ago, he was listing the commodities that were imported by China from elsewhere. I notice he did not include agricultural products or foodstuffs. Does China import a great deal in the field of agricultural products and foodstuffs, including such commodities as fish?

Mr. Petrie: I think, sir, that the answer is no, the Chinese do not import huge quantities; in fact, they import very little in the field of agriculture.

Senator Yuzyk: Then it would appear that wheat looms very large in the picture. What uses do the Chinese make of wheat?

Hon. Mr. Pepin: They kind of eat it!

Senator Yuzyk: All of them cannot be eating this wheat. We would be happy if every one of the 750 million Chinese ate one grain a day.

Hon. Mr. Pepin: That is the kind of reasoning that Senator McNamara kept plugging in my ear.

Senator Yuzyk: I am wondering what uses they make of wheat. Do they mill the wheat, or do they have other uses for it?

Mr. Petrie: They are a major wheat producer themselves, but they still need wheat.

Senator Yuzyk: How about other grains, such as barley? You mentioned rapeseed. They could use rapeseed very well?

Mr. Petrie: Could I appeal to Senator McNamara to help me out in that one?

Senator McNamara: Actually, the answer to the question about wheat is that China, as Mr. Petrie said, represents one of the largest producers of wheat in the world, their crop being about 2,200,000,000 bushels, compared to ours of about 700 million bushels. However, geography has a lot to do with it. With respect to big cities like Shanghai and

Peking in the northern part, where they have to move their supplies inland, it is more important transportationwise to bring wheat in by boat. Most of that is taken there and is used in the form of bread, as compared to, say, the Australian wheat, which is used more in the form of noodles. Our wheat is going mostly into the industrial cities. That is why I think it will continue, because it is easier to move it by boat with their inland transportation problems.

Senator Yuzyk: If they buy from us enough rails to increase transportation facilities, that will take care of the problem.

Senator McNamara: How can the Canadian Government help a country like China sell in Canada? I agree that we should not set up a trading agency to deal with a particular product. There are many ways in which the Canadian Government and people can help a country like China penetrate our market. Often, when the Chinese come over here, they have exclusive agents for a particular product. But the big stores like Hudson Bay or Eaton's will not deal with those agencies. The Chinese have to be shown that the way to do business in Canada is to make direct contact with the big users. There is a real role for Canadians in this field without giving preference to China over any other country.

Mr. Petrie: I have just discussed with the Chinese a very real problem in this area, where a Canadian importer in Nova Scotia wanted to import a particular product but was frustrated because the sole agent was in Vancouver. An important area in agriculture where we can make some inroads into China is that of breeding stock, such as poultry breeding stock, pig breeding stock and so on.

Senator Yuzyk: This is something that you are trying to promote?

Mr. Petrie: Yes. We have a deal that we are now working on.

Hon. Mr. Pepin: You should not be left under the impression that Canadian importers are not aggressive. They are quite aggressive.

Senator Yuzyk: Except that they, the Chinese, do not have an opportunity of displaying their goods.

Hon. Mr. Pepin: There is no doubt that as the months go by Canadian importers will be right in there, importing into Canada a lot more from China.

Senator Yuzyk: My next question concerns bettering our relations with China in every possible way. Our relations with China will increase very rapidly daily, monthly and annually. Contacts of all kinds will take place. Yet I think we are very backward in one respect, in that very few Canadians know very much about Chinese history, and fewer know the Chinese language. We still have some universities that teach Chinese history. Is the department giving any thought to encouraging universities to establish centres of language for the teaching of Chinese? I understand there might be a problem there, because there is not one overall Chinese language. Is the department establishing centres for the teaching of Chinese history and other subjects that will help up to understand better and improve our relations with China?

Hon. Mr. Pepin: This applies to every trading area in the world. My only comment at this time is that Canada may not be properly using one of its greatest assets, which is the demographic composition of the Canadian population. We have quite a number of people in Canada who speak Chinese.

Senator Yuzyk: Is it about 15,000, or is it more?

Hon. Mr. Pepin: It is a great number. It is a matter of stimulating interest in the particular objectives that you have in mind.

Senator Yuzyk: There are certain universities that probably should concentrate on this aspect, such as those in British Columbia, Montreal and Toronto.

Hon. Mr. Pepin: The Department of Industry, Trade and Commerce and the Department of External Affairs train their people in the Chinese language.

Senator Yuzyk: But it is a slow process.

Hon. Mr. Pepin: Yes, it is a slow process. The Canadian Ambassador to the People's Republic of China is fluent. So is one trade commissioner and two officers have just completed their study of the Chinese language. The Chinese politicians whom I met were quite impressed with the linguistic capacity of the Canadian embassy in Peking, which is quite a plus for us.

Senator Yuzyk: Is there one language that we could learn here in Canada, or do they have dialects?

Hon. Mr. Pepin: We have experienced quite a bit of difficulty between the Mandarin language and the Cantonese accent. We have had cases where one could not understand the other too easily.

Senator Yuxyk: Is there one dialect that is regarded as being official?

Senator McNamara: Yes, Mandarin.

Senator Macnaughton: With regard to the U.S. surcharge and US investment tax credit, I understand that we refused to join the Japanese and asked for a reversal. Is that because we were hoping to receive exemption ourselves?

Hon. Mr. Pepin: We refused to join the Japanese in getting what?

Senator Macnaughton: It is reported that the Japanese came to us and said "Let us go to Washington and let us make an official protest together."

Hon. Mr. Pepin: We refused to do it on a bilateral alliance basis because we did not think it would be political to do so. There are now quite a number of countries with the same interest in the elimination of the surcharge, and the speech that Mr. Sharp gave in New York yesterday is a very clear indication of Canadian policy in this regard. It was simply refusal on our part to appear to be entering in a bilateral alliance with the Japanese exclusively to exercise pressure on the United States. Afterwards, as you may have read in the press, Mr. Fukuda said that the translation did not convey exactly what he had in mind.

He had in mind co-operation between Canada and Japan, and not the more formal sort of "alliance".

Senator Macnaughton: With regard to the proposed entry of Great Britain into the Common Market, assuming the abolition of the preferential tariff to Commonwealth countries, have we made any new deals with New Zealand andor Australia?

Hon. Mr. Pepin: Some of the British preferentials we have with Australia and New Zealand are bilateral; others are through Great Britain. The exercise in the coming months, and this has already started, will be to try to identify areas where we, Australia and Canada, and New Zealand and Canada both have an interest in bilateralizing the British preferentials that existed before.

Senator Macnaughton: In New Zealand there is great concern, and it seems to me that Canada could provide a wonderful market for New Zealand's products.

Mr. Petrie: I would not limit this to Australia and New Zealand. There are other areas such as Fiji. A lot will depend on what arrangements are worked out, for example, between Fiji and the Common Market and New Zealand and the Common Market before we can tie things up in this area.

Senator Connolly (Ottawa West): Would Canada's nose be out of joint, if Great Britain decided to abandon the Commonwealth preferentials and suggested that it would be up to the individual Commonwealth countries to make their own bilateral or multilateral arrangements themselves? Would Canada feel it was being let down?

Hon. Mr. Pepin: That is what is happening with respect to the Canadian position in Great Britain now.

Senator Connolly (Ottawa West): I realize that.

Hon. Mr. Pepin: What is happening now is that about 55 per cent of the goods we export to Great Britain will continue to be exported free of duty, but will be free of duty for everybody. The British preferential with regard to the Canada-U.K. bilateral arrangement will be eliminated. We have reserved our rights in bilateral arrangements and in GATT: they are to be negotiated later on when the whole enlargement procedure is completed.

Mr. Petrie: When Britain joins the Common Market, she will of course adopt the common external tariff. When that happens, the preferences are gone. This does not mean we have to abolish the preferences we now enjoy in Australia or that Australia will have to abolish the preferences it enjoys here.

Senator Connolly (Ottawa West): That is bilateral.

Mr. Petrie: Yes, it is a Canadian-Australian concern.

Hon. Mr. Pepin: One thing that created a great deal of interest during the Chinese trip was the attitude of the Chinese to Canadian subsidiaries of US firms. That was one of their great preoccupations. As you have heard by what I have said to the press, we made the case there that these companies were operating in Canada under Canadian law and performing in most-and I underline "most"cases as good, corporate Canadian, citizens. We made the case that, in view of the importance these companies have in the total Canadian economy, it would be unfair for the Chinese to exclude them from Canada-China trade. They told us that they had objection to trading with US companies. So we explained our case and they explained their case and we made a compromise at the end of the day to the effect that they would look at each difficult case on a case-by-case basis. Their attitude in these matters has been more flexible than would appear. If they really want to buy something from Canada, they will find the way to rationalize it. Although this could have been a major embarrassment or a major handicap, we feel that they are going to take a flexible line.

Senator Lafond: It was better to have it out right at that point, was it not?

Hon. Mr. Pepin: Yes.

The Chairman: Honourable senators, it is ten to six. Thank you very much for appearing before us twice, Mr. Minister.

Hon. Mr. Pepin: I thank you for the privilege.

The committee adjourned.

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THIRD SESSION—TWENTY-EIGHTH PARLIAMENT

1970-71

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, Chairman

No. 18

WEDNESDAY, OCTOBER 20, 1971

Respecting

THE PACIFIC AREA

(Witness:-See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman

The Honourable Senators:

Lang

Belisle Macnaughton McElman Cameron McLean Carter Choquette McNamara Connolly (Ottawa West) Nichol O'Leary Croll Eudes Quart Rattenbury Fergusson Gouin Sparrow Sullivan Haig Lafond White Yuzyk—(30). Laird

Ex Officio Members: Flynn and Martin (Quorum 7)

Order of Reference

Extract from the Minutes of Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific;

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of the travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Tuesday, September 14, 1971:

With leave of the Senate.

The Honourable Senator McDonald moved, seconded by the Honourable Senator Fergusson:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate of more than one week.

After debate, and-

The question being put on the motion, it was-

Resolved in the affirmative.

Robert Fortier,

Clerk of the Senate.

Minutes of Proceedings

Wednesday, October 20, 1971.

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (Chairman), Belisle, Cameron, Carter, Eudes, Gouin, Grosart, Lafond, McNamara, Rattenbury and Yuzyk. (11)

In attendance: Mr . Bernard Wood, Special Assistant to the Committee.

A number of informative papers, respecting Canada's relations with certain Pacific Area countries, prepared for the information of the Committee by the Department of External Affairs, were tabled.

Agreed—That the above-mentioned papers be printed as Appendices to this Committee's Proceedings, as follows:

- (a) The Phillipines—Appendix "Q"
- (b) Cambodia—Appendix "R"
- (c) Burma—Appendix "S"
- (d) North Vietman (Democratic Republic of Vietnam)—Appendix "T"
- (e) Republic of Vietnam—Appendix "U"
- (f) Laos-Appendix "V"
- (g) North Korea (Democratic People's Republic of Korea)—Appendix "W" $\,$
- (h) Republic of Korea—Appendix "X"
- (i) Thailand—Appendix "Y"
- (j) Hong Kong—Appendix "Z"
- (k) Australia and New Zealand—Appendix "AA"
- (1) Malaysia and Singapore—Appendix "BB"

The Chairman tabled a letter from Mr. F. R. Petreie of the Department of Industry, Trade and Commerce containing supplementary information that had been requested at the Committee meeting of September 22, 1971.

Agreed—That the said correspondence be printed as Appendix "CC" to today's Proceedings.

Agreed—That a memorandum, which was received from Puey Ungphakorn, Ph.D., Dean, Faculty of Economics, Thammasat University, Bangkok, Thailand, respecting "Thailand's development and Canada's role in Southeast Asia", be printed as Appendix "DD" to today's Proceedings.

The Committee continued its study of the Pacific Area.

Witness: Dr. Phillips Talbot, President, The Asia Society, New York City.

At 5.00 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes, Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs Evidence

Ottawa, Wednesday, October 20, 1971

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, there are two or three housekeeping matters I should like to have tidied up before introducing our witness.

Honourable Senators will recall that on May 12, 1971, a series of ten information papers, prepared by the Department of External Affairs, were distributed to members of this Committee. Then on May 26, 1971, papers respecting Canada's relations with "Australia and New Zealand" and with "Malaysia and Singapore" were distributed. As these papers have not yet been included in the Committee's printed proceedings, they should be printed as Appendices to today's proceedings. Incidentally, four other information papers of this series can be found in Printed Proceedings Nos. 9, 10 and 14.

Agreed. (See Appendices "Q" to "BB".)

Since our last meeting, when we had the Honourable Jean-Luc Pépin and the Officials of the Department of Industry, Trade and Commerce in attendance, I have received some supplementary information that was requested at the time of the hearing. It would be useful to have the supplementary information appended to today's printed proceedings.

Agreed. (See Appendix "CC".)

We have also received a written submission from Dr. Puey Ungphakorn, Dean of the Faculty of Economics at the Thamnasat University in Bangkok. Dr. Ungphakorn, one of Asia's most distinguished economists, is also a member of the Board of Governors of Canada's International Development Research Centre. We had hoped that Dr. Ungphakorn might be here this autumn for a Governors' meeting and that we might hear him in person at that time. Since this proved impossible, however, he kindly agreed to prepare a written statement on development in Thailand and Southeast Asia and on Canada's possible role. I am sure that all Senators reading this paper will agree that it is a most valuable contribution to our study and will join me in expressing our deep appreciation to Dr. Ungphakorn.

Agreed. (Submission appended to these Proceedings as Appendix "DD").

The Chairman: Our meeting today was planned to examine in detail a number of issues which have come up repeatedly in our previous hearings. In spite of a clear consensus among all our witnesses about the desirability of greater Canadian involvement in the Pacific region, many of them have indicated doubts about our basic

national ability, at present, to achieve this greater involvement. For the vast majority of Canadians the discovery of Canadian interests in the Pacific region is a recent one and their awareness and understanding of the societies of the Pacific are very limited. One symptom of this problem, and a very important factor in itself, is the scarcity of Canadians knowledgeable in the languages of the Pacific countries. It seems clear that some substantial efforts will be required in the areas of language and culture to raise the level of Canadian knowledge concerning these countries.

We invited Mr. Phillips Talbot, President of the Asia Society in New York, to appear today in order for us to benefit from his exceptional background in U.S. relations with Asia and in the promotion of cultural and intellectual contacts. In his distinguished and varied career, Mr. Talbot has been a journalist, academic and diplomat, but a common thread has been his abiding interest in Asia.

In 1939 and 1940 he studied in India. During the second world war he was stationed in the Philippines, Songapore, India and China. He returned to Asia between 1946 and 1950 as part-time correspondent for the Chicago Daily News. From 1948 to 1950 he taught at the University of Chicago; and then served as Executive Director of the American Universities Field Staff from 1951 to 1961. In 1961 he was appointed to the State Department as Assistant Secretary of State for Near Eastern and South Asian Affairs, and served in that office until 1965 when he was named U.S. Ambassador to Greece. He took up his present position as President of the Asia Society in 1970.

So, honourable senators, you can see that with this comprehensive and formidable background and his present vantage point, Mr. Talbot is uniquely equipped to give us advice about the problems and opportunities involved in the promotion of the vital international relationships that are not directly political or commercial.

It is a pleasure to welcome you, sir, on behalf of all members of the committee. The procedure, with which I believe you are familiar, is that, after you have made your preliminary remarks, we ask one senator to lead the questioning, after which we will call on individual senators in turn, as they indicate their desire to speak. In this instance Senator Cameron has been kind enough to agree to lead the questioning. Would you care to make your introductory remarks now, Mr. Talbot?

Mr. Phillips Talbot, President, Asia Society: Thank you very much, Mr. Chairman and honourable senators. It is you who do me honour to have invited me to come here and talk with you. If I may add a personal comment, I am impressed at the devotion to duty this committee displays in meeting this afternoon after the rather special experience it enjoyed this morning. I have been impressed also,

if I may say so, with the breadth and depth of your concern, as demonstrated in the record of your hearings, which your staff has been good enough to furnish to me. Having gained considerable personal benefit from reading those hearings I should add, if I may say so, that I felt a certain sadness that there are not many legislative bodies in various countries which take this kind of approach to problems and to an area which is bound to be important to us all for the rest of this century and beyond.

As I understand it, sir, you have pursued your inquiry through a number of substantive issues with respect to the Pacific and you are now looking at the institutional questions; that is to say, how a North American nation can build up the knowledgeability necessary to deal effectively with trans-Pacific relationships; and, I suppose more fundamentally, how to gain a broader understanding of the people and issues of Asia; and how humankind can learn to live understandingly and effectively together on this increasingly fragile planet.

You are generous to suggest, in inviting me here, that some of the experiences we have had south of the border may be helpful to you in your consideration of these questions. I can assure you at the outset that we have no magic answers to the sorts of problems of which you speak. They are just the ones we are struggling with also. If some of our experiences prove helpful to you, I shall be most pleased to have had this opportunity to be with you.

With your permission, I thought that I might speak briefly of three different aspects of the problems of national competence with respect to the Pacific basin and Asia: firstly, in terms of the problem of governmental expertise; secondly, in connection with the training of professional area specialists of various sorts; and thirdly, on the wider problem of increasing public understanding of what is involved in dealing with peoples across the Pacific Ocean. My comments will be sketchy, but if there are questions afterwards I shall be glad to try to deal with them.

My comments about government training come out of my own government experience and the specific question of how important it is to have area-trained specialists in the principal services of the government dealing with other peoples of different cultural backgrounds. Ideallyand parenthetically I might comment that ideals are never translated fully into practice—I think it is important for any nation which has interests across cultural and not just national frontiers to have some members of its services who are well trained in the languages and cultures of those areas. Again ideally, in our United States service we have hoped that it would be possible to have area-trained foreign service officers who would spend part but not all of their time in the area of training. At the junior level, and at the middle level and, finally, even at the senior level, they would ideally be able to divide their time into three parts. Perhaps one-third of each phase of their career would be spent actually in their area of specialization, in other words. One-third would be devoted to work in the area of specialization, meaning handling jobs in Washington or in the American Embassy in Ottawa, London or somewhere else, dealing particularly with that part of the world. Then one-third would be off in quite different areas so that they could get comparative experience.

You will understand that there is a problem for an area specialist in getting the general competence which enables him to grow to the executive and general management skills that are necessary if he is to move to the top ranks of his service.

We have found area specialists in many parts of the world to be of great help in our diplomatic services. We have had our problems in the United States, such as when area specialists have become vulnerable to political pressures at times of high passions about particular problems. Nonetheless, to have a sufficiency of area specialists in a national foreign service has seemed to me, as an individual, and has seemed to others to be very important indeed.

To move on to the area of professional area-trained specialists, you are aware, Mr. Chairman, that in the past 20 years or so the United States has been in a situation of not having nearly enough people who possessed the necessary language and area knowledge to understand and interpret societies quite different from our own Western cultural and social organization. Following World War II and some other developments in the post-war period the United States made a vigorous effort to build up a body of area specialists. I remember the first of the Ford Foundation selection committees that offered fellowships to students to study in foreign areas: it was almost a matter of enticing some of them to go into pioneering fields. They could not see that there were going to be careers opening to them. In the intervening years a great effort has been put into this approach by foundations, by universities and, indeed, by government funding. Now, after 20 years, about 6 per cent of the members of the American Political Science Association and 4 per cent of the members of the American Historical Association list specialized competences in Asian areas. These add up to substantial numbers. In the two professional organizations which are most involved with Asia, the Association for Asian Studies and the American Oriental Society, a total of about 5,000 members deal specifically with Asian specialties, about half on the humanistic side and the other half in the social sciences and hard sciences.

The rapid expansion of the number of American specialists has created its own problems in terms of fitting them into universities and other structures in the United States. However, a number of them have opted not for the academic world but have gone into banks and business, government posts in the foreign service, and elsewhere. The rapid build up of specialists also had its impact in Asia. There the sheer numbers have caused concern in some of the Asian countries whose social science and other studies are very much less well supported. As a result, with hundreds of American scholars running around in Asia, questions are raised among some Asian social scientists. Particularly in a country like India there have consequently been doubts that full freedom for foreign scholars should be allowed.

The buildup has now been going on for 20 years and at least temporarily we seem to be reaching the other side of the hill. The expansion which was very rapid is being followed at this particular moment by a considerable contraction in foundation support and public support for area studies. Indeed between 1969 and 1970 there was a drop of

about 37 per cent in government funding of foreign area research in general. I think that this is perhaps a temporary change. It reflects two or three different forces at work in our country. For example, any kind of foreign area research which is defence oriented is being questioned more actively in Congress and in the scholarly communities. Also, there is a feeling that now the first generation of specialists in non-western areas has been brought to maturity, the needs are perhaps not so great as they were for accelerated development of area specialists. In any event, at this moment we are going through a consolidation, if not a contraction, of our training facilities for foreign area-trained specialists and our public and private institutions are trying to look into the future to see what is really important.

It might be of interest to you to know that a new organization was formed in the United States last month which is called the Committee on the Future of International Studies. This committee is drawing together a substantial number of university representatives and other interested people in the United States to examine critical needs in international education in the United States, especially in light of the current crisis in general funding of higher education.

A third area I would comment on, Mr. Chairman, relates to strengthening the public base of understanding of Asia and the Pacific. Specialists are necessary of course; but, in addition, national decisions are obviously made on the basis of the attitudes and convictions of non-specialists—of the many different kinds of non-specialists whose perceptions have come from missions, literature or art, from visitors to this side of the Pacific or tourism to the other side, from trade, press, radio or TV, from all sorts of sources. But the totality of these impressions about Asian civilizations is very light, as you have indicated, Mr. Chairman, in comparison to the Western cultural influences that impinge upon our people.

The growth of American perceptions of Asian civilization and of the Pacific peoples since World War II has been great as compared to earlier decades. Within this growth, however, I would point out that in the United States the mix has changed considerably from the 1950s to the 1970s. What I mean is that in 1950 there was a very strong sense of the so-called third world, which was seen as moving into a period of political independence and modernization. It was going to play a wholly new and different role than had been known before, and it was going to be a new factor. For these reasons many of our intellectuals, academics and others took the lead in endeavouring to understand and develop resources for an understanding of Asian people. We also had strong security interests during that period, of course, because of the uncertainty of the shape and nature of the world after World Was II. By contrast, our business interests in the Pacific area were fairly limited. It would be hard to say that business was then a leader in trying to help strengthen the national understanding of Asia.

Today in the 1970s, as I do not need to say to you, sir, a certain disillusionment with Vietnam has changed a good many attitudes. In many respects current attitudes block perceptions about the future among some of those ele-

ments of the United States society which were leaders 20 years ago. They have been caught up in the Vietnam situation, and it is very difficult for them to think ahead into the post-Vietnam period. There is also a degree of skepticism that some of the policies and programs which seemed so straight forward, such as the economic development programs, actually work on the ground as simply as had been believed. These have been recognized as much more complex questions than heretofore. Thus there has been and is now considerable questioning regarding the proper role of the United States in Asia, and this questioning cuts fairly deeply into our national attitudes as contrasted to the 1950s.

In the intervening years business interests, however, have increased very considerably. Some of our businesses are developing, I would say, a sophistication and a degree of perception with respect to Asian societies and the future of Asian societies which is becoming very impressive and important. Also our channels of obtaining information in our communities as a whole have changed. The rise of television, particularly, gives instant, dramatic and sometimes distorted impressions of what the basic situation in Asia and among the Asian people may be.

So, in the United States now we face the question of how we should confront the post-Vietnam, trans-Pacific relationship that will develop. We know that the two billion Asians will still be there. We know that our interdependence is bound to grow, that by the end of this decade, or soon thereafter, we will have to face such issues as trans-Pacific weather control, and that environment and pollution issues will be much more focused than they are at the present time. In a number of different ways that interdependence will bear on us, as it will also bear on the Asian people.

We Americans are burdened at the present time with domestic questions, and we face issues of our own priorities. But we recognize that we also face the need in the United States of avoiding mistakes of ignorance, misunderstanding and inattention in dealing with Asian peoples. It is in this context that the Asia Society has been formed and is functioning in the United States.

With your permission, Mr. Chairman, I might tell you something about the Asia Society, starting from its origins.

After World War II one problem in the United States was the restoration of cultural and intellectual relations between the Japanese and the Americans. Mr. John D. Rockefeller 3rd undertook efforts in this direction and helped revive the Japan Society which had been formed in the United States in 1907 and which had become inactive in the late 1930s and 1940s.

By the 1950s questions arose in the United States as to whether there should not be similar organizations relating to other countries with which our contacts were growing rapidly—an Indian Society, a Korea Society, an Indonesia Society, et cetera. It quickly became clear that such a course would produce a multiplicity of organizations that would be burdensome to the donors, to the managers and to the members. As a result, the Asia Society was created in 1956 as an umbrella organization to deal with the whole strecth of Asia, from the Pacific across to and including Afghanistan. It was created with a group of country coun-

cils of which there are now 13, each country council focusing on one Asian country and on the relationship between that country and ourselves. At the present time the Asia Society pursues both cultural activities and public affairs activities. In the cultural field it has a gallery which shows successively collections drawn from the best of the schools of Asian arts, a literature program which has helped with the translation into English of major works of Asian literature in about 22 Asian languages, and a performing arts program which brings troupes representing outstanding Asian traditions in music, the dance and the theatre.

In addition, the Asia Society mounts an educational program which for the secondary school level and in the colleges provides guides to readings and other materials helpful to teachers in finding what they need to teach about Asia. The Asia Society also manages a variety of public affairs forums and gatherings to deal with political, economic and social issues. Here we have lectures as a principal feature, and we also have panel discussions, seminars and conferences.

In the Asia Society we are concerned with getting Asian voices, that is, the best thought of contemporary Asian civilizations, into American life on a fuller and broader basis. We like to blend our cultural and public affairs programs so that perceptions of the art forms come together with discussions of the issues. As an exemple of our approach to better understanding of what is really being expressed in Asian societies, we have developed some bi-national dialogues between groups in particular Asian societies and the United States. We regularly convene conferences at various levels on particular topics.

We also have an organization which is attached to the Asia Society called the Southeast Asia Development Advisory Group—SEADAG. This is the only program of the Asia Society which is financed by the United States Agency for International Development. Through a pattern of nine continuing panels it brings American and Asian scholars and other non-officials who are concerned with development in Southeast Asia together with program officers in the United States Aid Agency and in international development agencies. In this way the program operators and the scholars focus together on particular problems of development to attempt to broaden and extent their knowledge of what the development process is all about

Is this an adequate effort? The answer of course is no. It is a partial effort. We see many things we would like to get into. We are perplexed as to how to do more through the electronic media which has such an impact on public perceptions of different issues. We see the importance of encouraging contacts between people in the same professions and businesses. While it is good to get a general group together to think about what is going on in Indonesia, it is even better if you can bring lawyers from one side together with lawyers from another, and newspaper men from one side together with newspaper men from the other.

We wonder if the time has not come for the building of a number of institutions—non-governmental institutions—in the Pacific area comparable to those built up in the Atlantic area since World War II. A number of those—the Atlantic Assembly, the Bilderberg Conderence Group and a good many others—have played important roles in helping the Atlantic community members to look at problems from somewhat common points of view.

Perhaps the time has indeed come to encourage the development of similar organizations in the Pacific. That is one of the possibilities we see as of importance in the years ahead. Some of these prospective trans-Pacific organizations might bring together just the so-called developed countries; some might bring together both those more developed economically and those that are emerging into modernization and economic development. When feasible, some should certainly include China in the discussion of the affairs of the Pacific Basin.

These are some of the thoughts that occur to us. We should welcome Canadian institutions developing along similar lines. If they do, we hope we might have the privilege of co-operating with them.

Thank you very much, sir.

The Chairman: Thank you very much, Mr. Talbot. This has been a very interesting introduction, particularly your description of the activities of the Asia Society. I have received notices of questions from Senator Cameron, Senator Yuzyk and Senator Belisle. So we will start with Senator Cameron.

Senator Cameron: Mr. Chairman, I think it is very useful to have Mr. Talbot here today and it is interesting to have a resumé of the experience of the United States in this area over the last 20 years. I have just returned from my sixth trip to Asia, where I think dramatic and important changes are taking place. This is probably a departure from the traditions of the past so far as relations between east and west are concerned, so this meeting is very important and we are the beneficiaries of your experience.

First of all, we have no comparable organizations to yours, and I agree with the point you made that it is important to get one agency rather than a series of multicultural agencies together, as you have done in the Asia Society.

What is the extent of the funding of the Asia Society, and could you give us an idea of the amount? The reason I raise that question is that for years, the Rockefeller people and others have been telling me, as a panhandler from the universities, that, "We are spending all our money in Asia, Africa, and so on, but there is none for you." I hope that is a reasonable question.

Mr. Talbot: It certainly is, sir. The society has been growing through these 15 years to the point now at which its annual budget runs about \$1.5 million. This is met by contributions from corporations, foundations and individuals, and to a very limited extent from some government agencies. I have mentioned the aid agreement with SEADAG. The only other government agencies that have put money into the Asia Society are the new National Endowment for the Humanities and the State Council for the Arts in New York. The funding comes from a large variety of sources.

Initially, the founder of the society, Mr. John D. Rockefeller 3rd., sustained a great part of the cost himself, but his current contributions are below 15 per cent of the total.

Others have contributed either to the general support of the society or to particular programs of the society.

Senator Cameron: Is this funding commitment on a one-, two-, three-, four- or five-year basis? This is one of the problems organizations of this kind have to face. In other words, you need some assurance for your long-range planning.

Mr. Talbot: Yes, it is one of the problems that executives of the organization have to face. The funding sources vary, and there is no fixed term for many of them. We trust that certain sources will continue. Some of the individuals have been interested in the organization from its inception and each year have contributed. They have not as individuals promised to contribute for periods in the future of more than, say, three years. We hope that they will continue. Some of the foundation grants run for periods of up to five years, but most of them tend, especially these days, to be one-year to two-year grants. I think a private organization like this, which is primarily dependent on non-governmental funds, must be an act of faith, not only initially but as it continues.

Senator Cameron: I would have guessed, before you gave the figure, that your funding might have been much greater than that. This shows the kind of problem we Canadians, with much less resources, would be up against. We need the same kind of approach, I think, and I am wondering how we are to do it.

There is a related question that comes out of related experience, which is a general criticism of the aid programs. The recipient countries are saying that it is tied aid in various forms, that the donor country is getting most of the benefit, up to 75 or 80 per cent, in supplying equipment, technologists and so on. Some of these countries are beginning to say, "Perhaps we are better off without aid. We are freer". They point to what the Russians have done in the last 50 years, to what the Japanese, who of course have had a lot of aid, have done since 1945; they point to what the Chinese have done since 1949. The Indians are beginning to say, "Perhaps we would be better off on our own."

My question is: Do you think there might be a value in governments who are supporting aid programs today examining this and saying that part of it will be diverted to this kind of activity through an independent non-governmental agency?

Senator Rattenbury: Cultural affairs.

Senator Cameron: Cultural and business. My approach is that it must be an accommodation of cultural and business. In fact, as an academic I do not want the academics to run it.

Mr. Talbot: I worked with the United States aid program during my years in government service, and I may be as aware as most of the difficulties of putting "X" amount of money in and being sure you will get "Y" result. This is not because of problems of administration or corruption or anything like that, but because social and economic development is far more complex than anybody really realized when this process was started. This has not led me to the view that we should therefore abandon the aid program.

In our country I am distressed at the loss of Congressional support for a process which is in mid-stream, which has made some progress, which has contributed importantly to the intrastructure of countries that will have to have infrastructure if they are to modernize or cope at all with increased populations.

I would therefore answer your question, sir, by saying that the need remains for some sort of transfer of skills and resources from the more affluent countries of the world to the less affluent. Indeed, it becomes more important, even, as we recognize the complexity and difficulty of the effort. On the other hand, in order that we, who are the rich men on the hill of the world, should be able to survive for the next generation or so, we very muchneed to understand the world that we are living in. This is a legitimate priority need, along with the other needs that are there.

Senator Cameron: Then your answer in effect is: No, you do not think that foreign aid is a source of funding of this sort of independent, non-governmental organization. That is really what I am getting at.

Mr. Talbot: I think the needs are different.

Senator Cameron: You put your finger on one of the problems, which is the question of language training. You people, through the armed forces program and others related to it, have done a great job with a sort of crash language program over the years. What advice would you have for a country like Canada with much less resources? What advice would you give for us to establish more adequate language training, not only in the universities but also in the business community, where we must have people qualified if they are to serve the trading interests of the country? Should it all be done through universities, or should it be done through a specialized institution or institutions?

Mr. Talbot: Because local circumstances bear so heavily on what works in one situation but may not in another, I am loathe to offer advice. Different types of people working in foreign areas have different needs for language area competence. I would think of a mixture in which the specialized language schools, whether commercial or otherwise as long as the quality is there, would have a role to play. In contrast, a number of corporations need people in foreign areas who are just not going to spend the two or three years necessary to become fully equipped area specialists. Therefore it is important to find methods to give them what will be useful to them abroad rather than send them out with nothing because the full treatment is not available.

Senator Belisle: You have made considerable efforts in the training of specialists. Are these in linguistics? While I am not aware of the situation as far as the Pacific is concerned, I have been to the British West Indies, Africa and Europe many times. We were told last year in Africa that a very small percentage of your personnel speak other than one language. You have a large community, I would say over 100 persons, at the universities in Ethiopia and we have 28 secondary education personnel there. I asked our people how many spoke two languages and how many more than two; 26 out of that 28 spoke three or more languages.

Mr. Talbot: That is very good indeed.

Senator Belisle: Whereas only 10 per cent of your professors spoke Ethiopian. They have such a closed community that they even import water by boat. That is no joke.

I was in Portugal a month ago and attended a university seminar in Lisbon. I was told by a Portuguese that in Brazilia, besides the receptionist who is a local girl, no one at the embassy speaks Portuguese. Was I misinformed?

Mr. Talbot: Senator, I do not know; I have not been involved in Latin-American affairs. May I say it would astonish me if this were true?

Senator Belisle: I think the reason we are not understood, which applies also to you, is that we have sent too many with academic training but insufficient knowledge of the language. I am convinced that if they were linguists in one or two local languages they would be better "salesmen." The academic language does not get across nowadays. I hope that I am not misunderstood in this respect, but it does not.

Mr. Talbot: Senator, this was exactly what I had in mind when I said that different people have different language needs. You are certainly right in suggesting that a salesman ought to be able to talk to his customers.

Senator Cameron: We had a good example of that this morning with Mr. Kosygin, when the Russian interpreter did a magnificent job. They have many like that, and we just cannot compete with them.

You said in your opening remarks that you had specialists in three areas of experience. One was language training, training in the language of the area in which they are to work, and I assume you thought more particularly of those at the academic level but also at the business level, in the communications area?

Mr. Talbot: Yes.

Senator Cameron: Your second point was that they spend the second third of the time on the job in Washington or London or apart from the area itself.

I was not too clear as to what you had in mind in your third point, which was that there are one-third in the field removed from the first two.

Mr. Talbot: I was speaking of Government officers, foreign service officers particularly, who do invest the time and effort needed to become specialists in some non-western culture area and language.

Ideally, if they can spend at least one-third of their time in the area of that culture, they can be very effective. A second third of their time should be spent dealing with problems of our relationship in that area. They can bring that interpretation and knowledge back home to where the policy decisions are made and have an input of understanding as to how those people are likely to react.

Then, for career service reasons and to avoid "localitis" it is also very good for any officer to spend at least one-third of his time outside his area of specialization, in a wholly different part of the world, dealing with quite different sets of problems. There he may not have local

knowledge, but he does begin to build a comparative experience. My reason is not only to prevent "localitis," but because in every career service, whether it be business or government, there is a need for training some first-rate specialists to become generalists. The problem is how to give the specialist broad enough experience so that in his later career, if he is good enough, he can go to the top in general management.

Senator Cameron: You referred to sociologists and others and the emphasis on the cultural aspects which, I think, is important. However, judging by the quality of sociologists we have had operating in Canada and the United States in the last four or five years, I think we must be very careful in the kind of sociologists we select for this service.

I wonder what your experience has been with the selections made, for both your foreign and commercial services.

Mr. Talbot: Those selected for the foreign service tend to be examined across the board. Some may be sociologists, but often that is not the case. Their focus tends to be more on operational problems; this is what their career will be all about.

The sociologists to whom you may be referring, I suppose, are the academic sociologists, who are analytical in their approach and to some extent divorced from policy concerns.

It is very hard for a man in public service to avoid becoming involved in and having to face policy issues. If he happens to be a sociologist, he is chosen because it is thought that he can deal with both analysis and policy issues effectively.

Senator Cameron: Do you consider the role of the satellites in communications will expedite certain communications between the east and west?

M. Talbot: Yes, sir, I do, and also that it will complicate it. There is discussion of a satellite over India to help the Indian educational development. The problem of the various languages to be conveyed on the channels of that satellite will be very substantial. If we find that nations put up satellites over other territories to beam programs, that would also be a complicating factor. It is something we will be living with before too long. It is one of the many new developments that will tighten the world's sense of interdependence. We need understanding of one another so that we can all manage our communications for good effect rather than for bad effect.

Senator Yuzyk: Mr. Talbot, I would like to inquire in general about the training programs which are sponsored or financed by the Asia Foundation. I understand that these are really non-official programs, but that in some way you must integrate them with government programs.

Mr. Talbot: With your permission, may I explain that in the United States there are different organizations with similar names? Sometimes this causes confusion. The particular organization that I am linked to and that I was describing, is the Asia Society. There is also an Asia Foundation, which has programs relating not so much to helping American understanding of Asia but rather to helping Asians. Its programs are directed primarily across to the

other side of the Pacific. So I suspected your question related to the Asia Society?

Senator Yuzyk: Yes, I would like to have some idea as to what vehicles are used. Are universities used, or does the government go directly into training programs of its own, which I would call official programs? Are there other programs that are sponsored, that are not official and that yet must be in some way co-ordinated with or integrated with the government programs?

Mr. Talbot: The government conducts some of its own programs. The Foreign Service Institute is responsible for training of foreign service officers. In addition, the universities do a great deal of training of specialists and professional people. Those universities get funds both from private sources and from government sources.

The National Defence Education Act has provided funding for language and area centres in a number of diffetent universities. There are also other provisions of government financing of foreign area research in the universities or in research institutes. Those really come down to two types of activity, one of which is done on contract with the government, to examine a particular problem for a government agency. The second is to improve competence and leave the direction of what is going to be studied in the hands of a non-governmental organization, let us say, a university or a research institute. There is a good deal of that. In the Asia Society, our programs are directed to the wider non-specialist sector of our national society—except for the SEADAG project. We do not get into the research and training aspect much.

Senator Yuzyk: In view of the fact that we are in a relatively new field here in Canada and that we have to look at this problem very seriously, what would you advise us to do? Do you think we should expand or set up certain institutes or departments, within the universities, which would be funded by government funds; or do you think that we should also set up societies such as the Asia Society, which could, of course, co-operate with your society and thus get the involvement of people from what I call the non-official side?

Mr. Talbot: It seems to me that these are two different problems, each of which calls for some kind of solution. First, I think a body of specialists is required in any national society. Without specialists, without people who have knowledge in depth of Japan, China, Southeast Asia or the sub-continent, it is very difficult to come to grips in any informed way with major policy issues. Universities in most western countries have a distinctive role in training such specialists.

Beyond that, there is the larger question of the national climate of opinion, the understanding which makes possible political and general public support for broad national goals, priorities and programs. It seems to me useful to have an organization which can be helpful to elements in the community who ought to have some understanding of important forces in Asia, even though Asia will never be their principal focus. It is in that kind of situation, both on the cultural and on the public affairs sides, that we have

found that a private, non-governmental society like the Asia Society, is useful.

Senator Yuzyk: Thank you very much.

Senator Belisle: What percentage of your money is spent on training linguists?

Mr. Talbot: So far as the Asia Society goes, none. So far as our country goes, in terms of the broader question, quite a few millions of dollars have gone into the training of language specialists and area specialists.

Senator Belisle: At the university level?

Mr. Talbot: Very largely, yes, sir.

Senator Belisle: Which is the proper place.

Mr. Talbot: Yes, sir.

Senator Grosart: Mr. Talbot, I am a little disturbed at all this talk about specialists, and particularly when we are using the word in the context of academic specialist. The conclusion I have reached, looking at the overall picture of the personnel contact between the developing countries and the developed countries, is that these academic specialists at the present time form too large a percentage of the total bodies' content.

I am not speaking, of course, of agricultural specialists, medical specialists, vocational training specialists, and public health experts. I call them "experts" in contradistinction to my specific use of this term "specialists".

When I look over the product of these specialists—and I do look over it—I read interminable articles about the folk ceremonials of tribes, tribal customs, and so on. It is all fine, it has a place in the whole cutural complex, but I think we have too much of it. There are too many people spending their time learning, as the old saying is, "more and more about less and less," which is practically a defition, I suppose, of academic Ph.D. directioning.

I think it would be much more useful to send some of our youngsters over to go to school in some of these countries, or people over there to work. I think that most members of this committee would be inclined to agree that the very best, or certainly one of the best witnesses that we had here appeared before us during our Caribbean study. He was a young man who went over there and played back to us, item by item, complaints that he had received in the field. He was not trying to prove anything; he did not have any thesis to prove; and, above all else, he was not thinking in terms of his own career. That is the difficulty I find with these academics. They say, "I am going to be a great specialist in this field." But what are they contributing?

I do not think anybody would describe me as being an anti-intellectual—far from it—but would you agree that at the present time this type of specialist is too large a component of the total body content?

Mr. Talbot: I probably would not agree with that. I would agree that many people are working on very narrow subjects. Parenthetically, however, specialists in some western fields do the same. It is hard, I would imagine, to find a broad new topic in English literature, for example, for a

student to do research. It is still true in our country that over 90 per cent of our academic specialists in such fields as political science and history have not discovered that "the third world" is really of sufficient importance for them to take a good look at it, even though the majority of the population of the world lives outside our cultural bounds.

Without trying to defend every topic that is chosen—because I would not do that—nonetheless, there is still much to be done in terms of raising the level of understanding of non-western societies in our culture to the level of understanding that we assume so far as western societies go. So that is one point.

The second point is that certainly it is useful to have our young people exposed to these very different societies. The experience of the United States Peace Corps in the 1960s was a very exciting. I am delighted to see that there is more variety now in programs for college years abroad than we ever imagined when I was in university. Many of the youngsters of this generation are getting a much more international experience, than we would have thought possible, and that is good.

Senator Grosart: The reason I raised the point is that over and over again it has been said to me in developing countries, "Why don't you send some people over here to work?" Well, why do we not do so?

Mr. Talbot: This was, of course, the idea of the United States Peace Corps.

Senator Grosart: Well, we have equivalent organizations here; there is more than one of them; but it seems that we are sending far too many of these young people over there to study. These countries want people to come and work and help them; they do not want to be studied. In fact, we have evidence now of people complaining. India, for example, complains very strongly: "Don't study us any more! We have been studied to death." There are places from which academic specialists wanting to go there merely to study are actually barred.

Mr. Talbot: That is correct, yes.

Senator Grosart: Is that not an indication that there may be something in the proposition I put to you that the percentage of these studying bodies is too high?

Mr. Talbot: I would say that we do have to show much more perception of their sensitivities than we have done before. As I have suggested, in recent years we in the United States have been in an upsurge which did get quite a lot of people out into countries like India. Now that is dropping off. We still, of course, have not sent anywhere nearly as many American scholars to India as Indian scholars come here for studies, although that is not really a fair comparison. I think that we and the Indians, do need to work out arrangements whereby we can get better understanding. The problem of understanding between India and the United States today is very serious. We need to approach it on a whole variety of different levels; otherwise a breakdown in communications could have severe consequences.

Senator Grosart: I saw a small paragraph in a magazine the other day in which it was indicated that one of the

countries in Africa, having been given a choice as to who might be sent there, replied, "Don't send Margaret Mead! Send us a nurse." That is the point I was trying to make. You have given me a very good answer, but I am afraid you have not changed my mind on that point. Obviously, there are two sides to this story.

Getting away from that, you have spoken of the existing research centres, the existing bodies of knowledge in the United States. Has the Asia Society in New York made a thorough survey of this?

Mr. Talbot: We have a general knowledge of its extent. I have some figures with me but I am afraid they are not comprehensive this afternoon.

Senator Grosart: Would you have, for example, a list of all the universities and other institutions that have regular courses of study, and the subjects in which they specialize?

Mr. Talbot: I could supply that to you, and would be very glad to do so.

Senator Grosart: You do have that information?

Mr. Talbot: It is obtainable, yes.

Senator Grosart: Have you made a similar study in Canada, or have you extended your study to include Canada?

Mr. Talbot: No, we have not.

Senator Grosart: The reason I ask you that is that, so far as I know, there is no such study in existence. In Canada there is not even a decent bibliography of Asian studies. I suggest, Mr. Chairman, that this is something we might undertake in this committee, when we put in our report. At least we could make a superficial survey so that we can say what is going on and indicate the amount of research work being done and the research facilities available.

The Chairman: Your point is well taken, Senator Grosart. However, I do not think it has to be all that superficial. I do not think the matter is so extensive that we would have to limit ourselves to a superficial look at it.

Senator Grosart: When I said "superficial," I meant that the results could probably be achieved by a questionnaire or something of that sort, rather than by a deep study which we might not be able to undertake. I think the same thing would apply to a bibliography. I would suggest this be done, if for no other reason than to warn readers of our report against the books they need not read, as they would be wasting their time; and there are many of those.

I also have some doubts, Mr. Talbot, as to whether an all-embracing Asia Society is necessarily the best way to approach this problem, if it means by-passing or not establishing groups with more particular interests. I think of the British experience, which is amazing, where you have a Sierra Leone Society and, in the old days, a Tanganyika Society, where they developed a tremendous amount of local expertise. Because they had so many of these groups with particular interests—academic, industrial, diplomatic, and so on—you got a rub-off from one to the other, which perhaps you do not get in the over-all comprehensive society. Would it not be useful, for example, with

respect to your problem of input of information in the United States, if there were a Japan Society, an Indonesia Society, and so on?

Mr. Talbot: I feel that this is the type of arrangement that each country would like to work out for itself. It may be that your circumstances would make it better to have individual societies. I just do not know.

In our circumstances it was considered to be useful to bring them together, and it was considered possible to get business people, art enthusiasts and academic people involved. We happened to do it through the device of a number of country councils. Through them, people particularly concerned with Indonesia came together in one group, and people particularly concerned with Korea in another group but all are related in a single society. This is one solution; it is the road we took, but I certainly would not suggest to you that it is the only road.

Senator Grosart: You are really doing what I am suggesting in reverse. In other countries—I know this applies to Britain—they have started with groups with a particular interest in a particular area and then have brought them together in an umbrella society.

Mr. Talbot: The British did it, I suppose, both ways. They had the Royal Central Asian Society, the Royal Asiatic Society, and so on, covering the whole area; and then they also had some individual bi-national groups.

Senator Grosart: What I am saying is that historically it went the other way in the British experience. They started with these localized societies, perhaps particularly in Africa because of the history of British penetration. People were interested in the Gold Coast and the Ivory Coast and they formed these societies, and to some extent they may have been anti-slavery societies.

Senator Cameron: May I just interject, Mr. Chairman? As far as I know, we have three major universities with major departments of Asiatic studies. There is the Department of Islamic Studies at McGill, the Department of Oriental Studies at Toronto University, and the Department of Pacific Studies at the University of British Columbia. There may be others, but I believe these are the three main ones. It should not be too hard for us to get a picture of what is being done, and I think we might consider getting from them a statement as to the scope of their activities and how these can be supplemented and enlarged upon in terms of national need.

Senator Grosart: Finally, Mr. Chairman, I have a note here. I will not identify the signature because I have not permission to do so, but it states: "Senator, I suspect the same countries which exclude scholars also exclude people who want to work. (e.g.) The Peace Corps is out and CUSO is being phased out".

Would you care to comment on that? This is not my note, but it is an interesting one.

Mr. Talbot: It is certainly true that different countries have policies which sometimes touch on scholars and sometimes touch on workers, and so on. While working in a foreign country has advantages, at least to the workers,

there are sometimes problems involved too. There is a general question of over-presence, and then there are specific questions within that of particular kinds of presence. There are countries, as you all know, which are now forcing Christian missionaries out.

Senator Grosart: Still?

Mr. Talbot: Yes, still.

Senator Grosart: I knew they were all forced out of China.

Mr. Talbot: Visas are not being renewed for some missionaries in India and in some other countries. This is not all missionaries, but for some missionaries. The total number is shrinking.

Senator Grosart: I see.

The Chairman: Senator Carter?

Senator Carter: Mr. Chairman, I thought for a moment that Senator Grosart, in the light of recent events, was going to suggest that Dr. Talbot start a Society for a Better Understanding of Canada.

Senator Grosart: It would not be a bad idea.

 $\mbox{Mr. Talbot:}\ \mbox{I}\ \mbox{believe I}\ \mbox{understand what the senator means.}$

Senator Carter: I was interested in the position Senator Grosart took with respect to the specialists. I am inclined to agree with his position to some extent, but perhaps approaching it from a different angle and for a different reason.

Is it not a fact that a good deal of specialized study and accumulation of knowledge does not amount to very much because somehow or other there is a stumbling block; it is not knowledge but attitude. The knowledge is accumulated and the comparisons are made from a vantage point of superiority—the superiority of our own culture and our own values—and in appraising their situation, their culture and their values, from our superior vantage point we miss a great deal; for example, the value in their culture. We do not assess it properly, and in the second place we set up barriers which prevent our making use of the knowledge we have gained of it. Would you comment on that, please?

Mr. Talbot: I would certainly agree, senator, that attitudes are important to relationships. These attitudes are what determine the adequacy and the satisfaction of any relationship. Attitudes can be built on emotional factors, or on some degree of knowledge, or on a mixture of the two.

In our country some of us have been arguing for the past 20 years that emotions have played too large a part and basic knowledge of other societies too small a part in the creation of national attitudes. We have had convictions about Asia obtained from quite narrow exposures, and it is important to learn something more rounded and detailed about these people in order that we can have more constructive attitudes. I would have thought, whether one calls them specialists or something else, that it is important in any society which is in contact with other societies to have some people who are thoroughly trained

they are and what their values are and how they react to various things. We in the United States have been through a national experience in recent years that has caused a great many people to wish we had had many more specialists with a much better understanding of some parts of Asia than were available at the time national policy decisions were made. They feel that might avoided fundamental miscalculations.

Senator Rattenbury: Are you trying to interject your thoughts into national policy through your society?

Mr. Talbot: Our society is not a lobbying society. It presents different points of view expressed by the people it brings together. From time to time it will issue a study of some sort. To that extent the answer to your question, senator, is: Yes, we do try to make available comment by people who come together in conferences, or whatever, on particular problems. However, we do not take any kind of policy stand.

Senator Rattenbury: On a topical subject?

Mr. Talbot: If I may give you an example, this autumn we are having a series of seven lectures at the Asia Society headquarters in New York on contemporary Chinese questions. These lecturers come and express their views out of very considerable experience on China. The Society presents this collection of views. But the Society itself does not take a position on whether the United States should proceed to recognition of the Peking Government.

The Chairman: I think that this is a very interesting point, Mr. Talbot. Who are the invitees to these lectures?

Mr. Talbot: They are open lectures, in the sense that the invitees are members of the Asia Society. Anyone who wishes may become a member, and they can bring guests; or any others who are willing to pay a fee can come. I think the fee is \$1.

The Chairman: How large would the attendance be?

Mr. Talbot: The attendance fills our small auditorium, which holds about 200 people.

The Chairman: I do not want to keep you here too long. I do not know whether or not any other senators have questions. There is a question that occurred to me, which I think gathers together what has been baffling some of the senators. It relates to the actual mechanics of operation of the Asia Society. Perhaps you could give us an outline of the on-going program of your Society, in your capacity of President. What are you going to do this week or this month? What do you have before you? Is that an impertinent question?

Mr. Talbot: Not at all. Perhaps I could preface this a little. The Asia Society is a non-governmental, non-profit organization. It is controlled by a self-perpetuating board of trustees. I am the principal staff officer. The Society conducts both cultural and public affairs programs. For example, this month we have mounted an exhibition of Indonesian art objects from the Borobudur period which if I may say so, is causing a stir in the New York art and

in what makes the other society tick-what type of people dinner last week at the New York Hilton for the President of the UN General Assembly, Mr. Adam Malik, who is the Foreign Minister of Indonesia. This month we have mounted two conferences. One was held in Wisconsin and brought together a group of six or seven Indonesians from Jakarta and about a dozen Americans. This meeting initiated a two-year bi-national discussion or symposium, in which the Indonesian group will be meeting in Jakarta and the American group in New York, on topics of common interest. They will exchange papers as the project proceeds, and we hope to have a face-to-face meeting again at the end. On one other weekend this month we had a conference which brought together about 25 people from Pacific basin countries to consider the implications for the Pacific basin of changes at the present time in China's relations with the world. We have had the lectures on China that I mentioned, plus five or six other lectures a week. For example, the other evening a banker from Thailand analyzed the current financial situation in Thailand. Tomorrow a group from various American non-governmental organizations will meet at our headquarters to take another look at the problem of the subcontinent and Bengal. The question is whether there is anything that non-governmental organizations could do to be helpful at this very critical time. This month we have also held briefing sessions for corporation executives with visitors from Asia. I could go on, but perhaps that gives you the range of our activities.

The Chairman: That is very helpful to me.

Senator Grosart: What is the end product of all this? What will come out of this? You have a few dozen people here, 200 people there who are all attending lectures. It seems to me that you have no real focus on achievement, or on a product. We do the same thing here. When I was listening to you it occurred to me that one small organization of which many of our senators are members, within the last three weeks has had similar sessions, including the group of parliamentarians from the United Kingdom, the Speaker from India, the Prime Minister of Malaysia; and we have done this on a budget of a few hundred dollars. I think of an organization such as yours having some kind of strategy that would insist on something coming out of it other than just throwing good words and good thoughts and ideas to the wind, without any real focus as to what it should do. Some organizations are beginning to think this way. They might call it strategic planning or something like that, or introducing systems analysis to ascertain what we are about. What are our objectives, or if we have objectives. Does your organization do an thing like that?

Mr. Talbot: Yes, I think the answer would be end products and not end product. It would be plural in the sense that we are reaching out to a variety of audiences in an endeavour to obtain particular results with those different audiences. Now, with a business audience which meets again and again over a long period, we are providing contacts between a cluster of influential businessmen and Asians who have a good deal to say about changing conditions in their countries. Is this not precisely the thing you were speaking about, senator, with respect to your six visits to Asia? Also, in the post-Vietnam period in the United States a lot of assumptions of the post-World War cultural circles. It is a remarkable exhibition. We held a II generation regarding Asian-American relations will be

outmoded. We are trying to stir different groups in American society to look at new realities and to examine new assumptions which are gaining currency. We seek to get at them in a variety of ways. I should have mentioned before that we have also a centre in Washington. It offers programs, as we do in New York, for clusters of newsmen, people from various firms, and some of the staff members and others from Capitol Hill. It is a forum, therefore, looking at the kinds of relationships the United States may have in the 1970's, the kinds of issues that are going to be important in trans-Pacific connections, and what the Asian civilizations have to say about approaches to these problems.

Senator Grosart: When you speak about attitudes, I am wondering, for example, if an association such as yours has taken a stand. You have spoken of attitudes. Have you taken a position about the attitudes indicated by Fu Manchu movies, anti-Japanese movies, cartoons, which are in your papers and ours, ridiculing people who do not have the same color skin as ours. Do you do anything about this, or is anyone really zeroing in on this kind of problem which creates the kinds of attitudes which cause wars?

Mr. Talbot: The problem regarding films is one which we have been struggling with—not just the Asia Society, but all of us who are concerned with foreign areas. Getting improvement is a matter of great difficulty, partly because of the commercial factor of film distribution, with which I am sure you are familiar.

Another method of dealing with the problem, perhaps, is the one which we have tried, which is to develop higher standards of taste through exhibitions of the kinds of Asian art which are expressions of the best of those cultures.

We put together exhibitions which travel around the country to various museums. We mount photo exhibitions which are circulated to schools. We try to give something, both in terms of their classic cultures and of their contem-

porary social aspects, which will present a fair impression of what Asian societies are like. The attack is in that direction primarily, and it is a strategic effort.

Senator Grosart: Have you been able to obtain the funds to get into the film-making business yourself?

Mr. Talbot: In a very limited way indeed. It is terribly expensive. We have done this with respect to some Asian dances. We have made some small films, and have had radio programs. But it is very expensive.

Senator Grosart: I do not want you to think that I am critical of the Asian Society. Far from it. However, as I look at all the societies that are doing good work, I often wonder if they are all zeroing in on results, that is "products", to use your own word.

Mr. Talbot: It is a fair question, senator, particularly in these days when funding for this sort of activity, or for any educational activity, is difficult. We are all looking very carefully at the value of different elements of what we are doing.

Senator Grosart: I may be influenced by the fact that recently a public body in Canada, using public funds, granted a young lady a two-year, \$7,000-a-year fellowship, to go to Geneva to make a study of the incidence of sexuality in eighteenth century European literature.

The Chairman: Was this brought especially to your attention, or are we all supposed to know about it?

Senator Grosart: It was published as an official grant of a government agency.

The Chairman: Thank you very much, Mr. Talbot. It has been a delightful afternoon. It was very kind of you to come here and compete with Mr. Kosygin.

Mr. Talbot: Thank you for giving me the opportunity of appearing before you.

The committee adjourned.

APPENDIX "Q"

THE PHILIPPINES

1. General Facts

- (a) Area—115,700 square miles
- (b) Population -27,087,685 (1960) Estimated population mid-year 1970 was 38,500,000. Annual rate of increase 3.5%.
- (c) Economic Data—(1969), Gross National Product, Pesos 31.1 billion; Per capita income \$207; Exports \$873 million; Imports \$1,131 million; Current Account Balance—\$238 million.

2. Canada-Philippines Relations

(a) Political—

The Philippines, of all countries in Southeast Asia, has established the most effective system of democratic institutions, although political and economic power continues to be controlled by a relatively narrow elite. (Since 1945 all administrations have taken office through free elections.) During this period the system was severely challenged by communist guerrillas (Huks) who established their base among the rural poor. Although the Huk movement has been contained and all but eradicated, the recent violent student and labour led demonstrations against the government of newly re-elected President Marcos indicate that dissatisfaction with the system is still considerable. While there is little possibility that revolutionary elements can effectively challenge the government in the foreseeable future, widespread rural and urban poverty and extensive unemployment and under employment will continue to breed extra-parliamentary dissent.

Since the Philippines gained its independence from the United States in 1946, the main feature of its foreign policy has been the continuing special relationship with the United States. The Philippines has enjoyed a special economic relationship with the United States and has supported United States policy in Southeast Asiabecoming a member of the South-East Asian Treaty Organization (SEATO) and providing troops for the military effort in South Vietnam. In recent years, however, there has been a strong tendency to emphasize the Asian character of the Philippines and the government has supported such regional organizations as the Association of South-East Asian Nations (ASEAN), Asian and Pacific Council (ASPAC), Asian Development Bank (ADB), and Economic Council for Asia and the Far East (ECAFE). A recurring feature of Philippine foreign policy has been its claim to sovereignty over Sabah (formerly British North Borneo), which forms part of Malaysia. Though not pressed adamantly this claim has inhibited relations between the two countries and impaired their co-operation within ASEAN. During the elections in 1969, President Marcos advocated a policy of reducing Philippine dependence on the United States and increasing relations with other Western countries and initiating relations with the Soviet block.

Canada appointed a Consul-General to the Philippines in October, 1949, and our Consulate-General in Manila,

our first in Southeast Asia, was opened in January, 1950. Canadian representation has remained at the Consul-General level.

The first Consul of the Philippines to arrive in Canada established a post in Vancouver in 1956. In addition a trade promotion office was also opened in Toronto in 1969. The Philippines recently notified the Canadian government that it wished to establish an Embassy with a resident Ambassador in Ottawa and these plans should be carried out shortly.

Direct relations between Canada and the Philippines have been primarily in the field of trade, investment and immigration and this emphasis will continue in the foreseeable future. Canada and the Philippines share membership in the Colombo Plan, the United Nations, in such specialized agencies as the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), Food and Agriculture Organization (FAO) and the Asian Development Bank (ADB). Canada has made some \$50 million available through the ADB, which has its headquarters in Manila, and has a representative on the Board of Directors. Canadian-Philippine relations have been dominated by commercial considerations, but as trade and investment as well as immigration expand, there will be an increased requirement to expand contacts on a broader range of issues.

(b) Economic and Commercial—

The Philippines, with large untapped resources and a relatively educated labour force, has great potential for development. Although the economy failed to measure up to its potential in the 1960's, GNP per person is somewhat more than \$200, well above the Southeast Asia average, and real per capita income is currently growing at 2.5% a year (despite a population growth rate of 3.5%). Long term economic prospects are good, but in the short term institutional problems are likely to keep the rate of economic expansion well below its full potential. The economy remains heavily based on agriculture though forestry and fisheries are also of substantial importance. Together, these three sectors employ 55% of the active labour force and produce over 80% of all exports. In recent years, through introduction of high yielding seed strains, the country has become self-sufficient in rice (the staple food) for the first time since the Second World War.

The Philippine Government has taken steps to encourage industrial development but these efforts have largely resulted in the proliferation of factories engaged in the final stage of production of luxury consumer goods, resulting in a serious drain on the country's foreign exchange. In order to re-direct foreign investment the government has introduced legislation restricting foreign ownership in certain sectors and free entry is now permitted only to prospective investors in industries which produce goods and services not currently produced locally.

The country has recently experienced serious foreign exchange problems as a result of poor external debt management, and heavy public spending, just prior to last year's elections. In order to restore international confidence in the economy the government has adopted severe measures to control the outflow of funds and has in effect devalued the peso by permitting it to float.

The Philippines is Canada's most important market in Southeast Asia; in 1969 exports to Southeast Asia amounted to \$67.9 million of which \$32.3 million were directed to the Philippines. Notable items are wheat, telephone equipment, newsprint, vehicles and spare parts, and raw and semi-processed metals. Despite unfavourable market conditions created by the recent import restrictions Canadian exports in the first quarter of 1970 showed a considerable increase over the same period in 1969. Since Philippine development plans stress rapid growth in forestry and mining, sectors in which Canada has a solid reputation, exports may be expected to show continued growth. The Export Development Corporation has provided substantial credit cover with \$34.5 million outstanding as of June, 1970. Imports from the Philippines were valued at \$4.5 million in 1969 and it is unlikely that this trade will expand rapidly.

Canadian companies have invested a considerable amount in the Philippines, especially in the mining industry. Placer Development Limited of Vancouver has a 40% interest in a Philippine corporation which has invested \$40 million in an open pit copper mining operation. Sherritt-Gordon Limited has signed a 25-year management contract with Philippine partners for the development of extensive nickel deposits. In addition, there are other smaller Canadian investments in the country, including two well-known insurance companies.

(c) Aid--

The Philippines is well endowed with the natural resources and sociological prerequisites (an adequate literacy level and enterprising middle class) for rapid development. Economic growth, however, has been hampered by the lack of an adequate development programme, the inability of the government to expand its tax revenues to support public infrastructure, and unbalanced industrial development. The government's major role in the recent wide-scale introduction of high yielding rice strains demonstrates that it has the capacity to administer effectively complex development programmes. The current Four Year Plan (1970-1973) has set modest and attainable goals with the main emphasis on raising production in agricultural exports, improving

the supporting infrastructure and increasing growth in the forestry and mineral sectors.

The Canadian assistance programme to the Philippines has remained at a very modest level. Since the beginning of the Colombo Plan, Canada has disbursed almost \$1 million in technical assistance and these funds have provided for the training of 176 students in Canada, primarily in the field of public administration. Canadian Executive Overseas Service (CESO) has launched a small programme in the Philippines with Canadian executives advising in such areas as production management. This year Canada also provided the Philippine Red Cross with \$35,000 in emergency relief.

As a result of the recent foreign exchange problems encountered by the Philippine government, the International Bank for Reconstruction and Development (IBRD) is in the process of establishing a Consultative Group which will analyse the long range assistance requirements of the Philippines. Since Canada's assistance programme to the Philippines is not a substantial one, Canada has declined full membership but will attend Group meetings as an observer.

(d) Immigration—

After the revision of the Immigration regulations in 1962, there was a great increase in the number of Philippine nationals seeking to come to Canada (in 1963 only 186 Philippine residents took up landed immigrants' status; by 1969 the number has increased to 3,001). Full-time immigration facilities were established in Manila in 1966. When the Philippine Government recently announced its intention to establish an Embassy in Ottawa, the more than 10,000 Filipinos now residing in Canada were cited as a major factor influencing this decision.

Most of the arrivals from the Philippines are in the professional, technical and service categories. Education in the Philippines is of a relatively high level oand nursing colleges and technical schools are graduating more students than the local economy can absorb. Since education after thie third grade is in English and since in many respects the Philippines is the most westernized of all the Asian countries, Filipinos adjust readily to life in Canada. Canada has benefited particularly from the services of Filipino doctors and nurses.

APPENDIX "R"

CAMBODIA

1. General Facts

- (a) Area—181,035 square kilometers
- (b) Population—(1962 Census—final result) Total 5,729,000; Khmer 5,334,000; Vietnamese 218,000; Chinese 163,000; Others 14,000.
- (c) External Trade—Imports—3,365 million riels; Exports 2,907 million riels; 100 riels—US \$2.86; Per capita income—US \$130.

2. Canadian Relations with Cambodia

(a) Political—

Canada's direct bilateral interest in Cambodia is limited essentially to the very general objective, as a bicultural and Pacific country, of developing relations with this Asian francophone country; although recognizing the Cambodian Government in Phnom Penh we have not found it necessary so far to establish diplomatic relations, preferring before January 1970 to rely on the Canadian Delegation to the ICC to conduct business on our behalf, mainly in administering our modest aid programme (Cambodia is not and is unlikely to become a country of concentration). Since the beginning of 1970 (when the Cambodia ICC adjourned sine die at the request of the government of Prince Sihanouk) our bilateral relations and the administration of our aid programme have been conducted fromm the Canadian Delegation to the ICC in Saigon. There are no Canadian commercial interests requiring protection in Cambodia and our minimal consular interets or handled by the British Embassy.

In spite of this limited direct interest, Cambodia is a country to which Canada has been drawn by the circumstances of our role in the International Control Commission and, when this is terminated or it appears that the Commission is unlikely to be reactivated, consideration will have to be given to maintaining the ties that have developed, even if this is only by the exchange of nonresident diplomatic missions. Any such decision, however, will depend on prevailing circumstances in Indochina, including the possibility of the reactivation of the Cambodia ICC, and related decisions in respect of Vietnam and Laos.

As a member of the International Commission for Supervision and Control in Cambodia, Canada shares with India and Poland the commitment undertaken in 1954 to supervise the proper implementation of the Cease-fire Agreement for Cambodia. As the conflict developed in neighbouring Vietnam, the wider objective of helping to keep it from spreading into Cambodia was also accepted. Before the adjournment of the Cambodia Commission Canada endeavoured in the face of considerable obstruction to promote its effective operation but the Commission took little or no action to expose the use of Cambodian territory by Vietnamese communist forces, which was the basic cause of tension with both South Vietnam and the United States and which ultimately led to the crisis in the Cambodian Government that forced Prince Sihanouk from power.

(b) Economic and Commercial-

In 1969 Canadian exports to Cambodia and Laos* amounted to only \$204,000 (chiefly newsprint) while there were no imports of any significant value. Future commercial relations with Cambodia will be closely tied to international aid programmes and the cessation of hostilities in the area. There is very little indication of any increase in trade with Cambodia in the foreseeable future.

(c) Aid-

Canada has disbursed a total of \$1.4 million to Cambodia since the beginning of the Colombo Plan, and 136 Cambodian students have studied in Canada. During 1969, Canada disbursed \$189,000 in grants, all of which was for technical assistance, and committed a further \$189,000 in grants. Five Cambodian students and 23 trainees studied in Canada in 1969 and 7 Canadian technical experts were in Cambodia.

Through Canada's involvement in the regional Mekong development programme, where Canadian disbursements have totalled some \$2.7 million, the Canadian Government has supported the Prek Thnot project in Cambodia.

(d) Immigration—

Cambodia is part of the area of responsibility of the Canadian immigration office in Hong Kong. Arrivals from Cambodia remain low. The immigration movement during the past five years was as follows: 1965, 3; 1966, 3; 1967, -1968, 1; 1969, 3; 1970 (first 7 months), 1.

^{*}No separate figures are available for these two countries.

APPENDIX "S"

BURMA

1. General Facts

- (a) Area—262,000 square miles
- (b) Population—27.0 million (1969 estimates) Estimated annual rate of growth 2.3%
- (c) Economic Data—1969 Gross Domestic Product—\$2,029 million; Per Capital Income—\$74; Exports—\$124 million; Imports—\$141 million.

2. Canadian-Burma Relations

(a) Political—

In 1962 a Revolutionary Council of army officers led by the current Prime Minister General Ne Win overthrew the government headed by U Nu, suspended parliament and established a non-political regime. The Revolutionary Council still forms the government of Burma and the army continues to be the sole effective unifying force. Domestic policy is based on the "Burmese Way to Socialism" involving nationalization of virtually all production and distribution services in the country and avoidance of foreign commitments.

A continuing problem facing the Government is that a large minority groups (minorities make up 40% of the total population) who have never entirely come to terms with the national government since Burma became independent in 1948, and who are prepared to take up arms to support their arguments for greater or complete autonomy. The national government's control of much of the border areas has been tenuous at best. Communist guerrillas who receive some support from neighbouring China are also active. Currently U Nu is attempting to acquire support from various insurgent groups in order to establish the basis of a movement with the capacity to bring down the Revolutionary Council. His prospects of success, however, are extremely limited and it is likely that military rule will continue in the foreseeable future.

Burmese foreign policy throughout the period since independence has been based on the principles of non-alignment and "non-involvement" with a particular effort to avoid conflict with China. In recent years the regime has begun to adopt a more outward-looking policy toward the rest of the world, expressed *inter alia* through visits by Ne Win to London and other Western European capitals, Moscow, Tokyo and Washington. There are indications that the Burmese would like to have close relations with Canada as a country with no imperialist past and without the current political involvement of the United States in the affairs of southeast Asia.

Canada has recognized the Union of Burma since its independence in 1948, but did not establish diplomatic relations until 1958. Canada is represented in Rangoon through non-resident accreditation of the High Commissioner in Kuala Lumpur. The Burmese maintain an embassy headed by an Ambassador in Ottawa. Direct relations have been limited to developmental assistance and a moderate amount of trade and there is little likeli-

hood that this will change significantly in the foreseeable future.

(b) Commercial Relations-

In 1962 the Burmese government declared its intention to establish the "Burmese Way to Socialism" and accordingly in the ensuing years the banking system, foreign trade, domestic wholesale trade and most of the retail trade were nationalized. Largely as a result of nationalization distribution facilities have deteriorated to the point of forcing the economy in many areas into a regime of local self-sufficiency. The rice economy has been particularly hard hit. Prior to World War II Burma was the world's largest exporter of rice selling some three million tons annually, but by 1966 rice exports had fallen to one million tons and last year were estimated at 600 thousand tons—this in a country whose economy is overwhelmingly agricultural. In pre-war Burma, oil was the second export commodity, but the nationalized oil industry now produces barely enough to cover the low domestic consumption. In fiscal year 1968/69 the gross domestic product increased by about 5 per cent but the total gross domestic product was only 3 per cent higher than in 1967/68. The government is currently emphasizing growth in sectors with high export potential (forestry, minerals, and selected agricultural crops) but prospects for rapid expansion in these sectors are not good.

Burma, which receives Most Favour Nation Treatment from Canada, is the smallest trading partner in Southeast Asia with the exception of Cambodia and Laos. Bot our export and import trade follow a highly irregular pattern and we have few permanent markets in Burma. Canadian exports to Burma were worth \$1,470,000 in 1969 and \$740,000 in 1968. Apart from wheat, and one-time capital equipment purchases, regular purchases have included asbestos and paper. Canadian imports from Burma consist primarily of exotic types of lumber and logs and totalled \$55,000 in 1969 and \$75,000 in 1968. It is doubtful if Canada-Burma trade will expand rapidly in future although there is some possibility of Canada establishing small markets for such items as logging equipment.

(c) Aid—

If Burma is to develop it is important that there be a considerable inflow of resources and accompanying technical assistance from abroad. On the basis of its strict adherence to the policy of non-alignment, Burma has restricted aid from the U.S.S.R., United States and the People's Republic of China. Assistance from Japan, the Federal Republic of Germany, Australia and Canada, on the other hand, is acceptable and welcome.

Under the Colombo Plan Burma has received some \$8.8 million from Canada in technical assistance as well as capital and commodity aid. The largest single capital aid project was the Thaketa Bridge which spans the river at Rangoon; cobalt beam therapy units were also installed at the Rangoon General Hospital. Thirteen Canadian technical advisors have served in Burma while a total of 216 Burmese students have studied in Canada. In 1969 Canada disbursed \$750,000 in grants and committed \$2.5 million. The major portion of this commitment was for food aid. Twenty-four students and nine trainees were studying in Canada during 1969.

The Canadian government is currently examining possible assistance projects in the forestry, mineral and petroleum sectors, and it is expected that the food aid programme will continue.

(d) Immigration—

In keeping with Canada's immigration policy to developing countries, immigration activities in Burma are limited to providing service on a responsive basis. Immigration from Burma is very low (13 in 1969) and there is little likelihood that it will increase significantly.

APPENDIX "T"

North Vietnam (Democratic Republic of Vietnam)

1. General Facts

- (a) Area—158,800 square kilometers
- (b) Population—15,916,955 (1960) Estimated in 1968, 18,800,000. Annual rate of increase 3.6 per cent.
- (c) Commerce—Exports (1965)—88 million roubles; Imports (1965)—162 million roubles.

2. Canada's Relations with North Vietnam.

(a) Political—

The Canadian Government has never extended recognition to the Democratic Republic of Vietnam (North Vietnam). As a member of the International Commission for Supervision and Control in Vietnam, however, Canada has representatives resident in North Vietnam and through them it has defacto contacts with the North Vietnamese government. These contacts are almost exclusively in the context of our responsibilities as a

member of the Commission and there is no intention to extend or change them in present circumstances. Should the war in Indochina or Canada's present role in the area come to an end it might be appropriate to re-examine Canadian-North Vietnamese relations.

(b) Economic and Commercial-

Commercial relations between Canada and North Vietnam are virtually non-existent at the present time.

(c) Aid-

Canada has not so far given developmental assistance to North Vietnam. When peace is re-established in Indochina, however, Canada is committed to taking a full part in special programmes of rehabilitation aid necessitated by the prolonged hostilities, and it is envisaged that these programmes will include aid to North Vietnam as well as to the other Indochinese states, provided, of course, the North Vietnamese agree.

(d) Immigration—

There is no immigration to Canada from North Vietnam and little likelihood of there being any in the fore-seeable future.

APPENDIX "U"

REPUBLIC OF VIETNAM

- 1. General Facts
 - (a) Area—173,809 square kilometers
 - (b) Population—16,282,582 (1968)
 - (c) Commerce—Exports (1968)—936 million piastres*; Imports (1968)—37,293 million piastres*.
- 2. Canada's Relations with the Republic of Vietnam

(a) Political—

Canada recognizes the Republic of Vietnam but does not maintain formal diplomatic relations with its government. Recognition was accorded in 1952 but our relations with Vietnam have been complicated since 1954 by the division of the country and by our membership in the International Commission for Supervision and Control. Canada's primary interests in the Republic of Vietnam have been related to its membership in the Commission, out over the years other interests have developed out of our aid programmes there and our shared participation in international organizations, including the Colombo Plan and a number of the specialized agencies of the United Nations. The Canadian Commissioner in Saigon has regular dealings with the authorities of the Republic of Vietnam.

It has been deemed inappropriate to take any further formal action to change existing bilateral relations, which might only complicate the work of the Commission and the clarification of the longer-term uncertainties concerning the political future of Vietnam. When peace is restored, however, or when our present role in Indochina is altered, Canada will wish to consolidate its relations with Vietnam.

Canada's experience in Indochina, and more particularly in Vietnam, since 1954 has been highly unsatisfactory. For both external and internal reasons the International Commissions of which we have been a member

have been unable either to fulfil their mandates or to influence the parties concerned in the renewal of hostilities to reach a negotiated settlement. In these circumstances it would be unwise for Canada to go any distance in advance toward undertaking a new supervisory function after peace has been re-established. We should be assured prior to any new commitment that any international mechanism which might be established would have a clear mandate, adequate resources and the full co-operation of the parties directly concerned, enabling it to be effective rather than merely symbolic.

(b) Economic and Commercial-

Present commercial relations between Canada and Vietnam are minimal. Exports to the Republic of Vietnam in 1969 amounted to \$2.1 million while imports were negligible. The end of the war may result in increased trade with Vietnam as a result of participation in reconstruction schemes, but this is only an area of speculation at the present time.

(c) Aid—

A total of \$9.8 million has been disbursed under the Canadian aid programme to the Republic of Vietnam since the beginning of the Colombo Plan. This has included \$4.0 million towards capital projects and \$5.0 million in technical assistance. A total of 522 students have trained in Canada. In 1969 Canada disbursed \$1.8 million in grants of which \$700,000 was for technical assistance. A further commitment of \$2.1 million was made during the year. One hundred and forty-seven students and nineteen trainees were in Canada during the year and Canada provided twenty-five advisers in Vietnam. When peace comes to Indochina, Canada, without diminishing its existing aid programme in the area, will wish to play its full part in special programmes of rehabilitation aid necessitated by the prolonged hostilities. These will include programmes in South Vietnam.

(d) Immigration—

While immigration from South Vietnam has increased in recent years, the number of arrivals is still low. Totals for the past five years have been as follows: 1965, 6; 1966, 11; 1967, 25; 1968, 58; 1969, 112; 1970 (first 7 months), 87.

^{*80} piastres-U.S. \$1.

APPENDIX "V"

LAOS

1. General Facts

- (a) Area—236,800 square kilometers
- (b) Population—(1968 estimate) 2,825,143
- (c) External Trade—(1966) Imports—10,037.7 million kips; Exports—881.2 million kips, 1,000 kips—US \$4.13 (official exchange rate).

2. Canadian Relations with Laos

(a) Political-

Canada's direct bilateral interest in Laos is limited essentially to the very general objective, as a bicultural and Pacific country, of developing relations with this Asian francophone country; although recognizing the Royal Laotian Government we have not found it necessary so far to establish diplomatic relations, preferring to rely on the Canadian Delegation to the ICC to conduct business on our behalf, mainly in administering our modest aid programme (Laos is not and is unlikely to become a country of concentration). Canadian commercial interests, are handled by the Canadian Embassy in Bangkok and Canada's minimal consular interests are handled by the British Embassy in Vientiane.

In spite of this limited direct interest, Laos is a country to which Canada has been drawn by the circumstances of our role in the International Control Commission and when this is terminated consideration will have to be given to maintaining the ties that have developed, even if this is only by the exchange of non-resident diplomatic missions. Any such decision, however, will depend on prevailing circumstances in Indochina including related decisions in respect of Vietnam and Cambodia.

As a member of the International Commission for Supervision and Control in Laos, Canada shares with

India and Poland the commitment originally undertaken in 1954, and subsequently redefined at the 1961-62 Geneva Conference, to supervise the proper implementation of the Geneva Agreements on Laos. As a signatory (with twelve other governments) of the 1962 Protocol and Declaration on the Neutrality of Laos, Canada has accepted a number of binding international obligations regarding Laos and a financial commitment in the form of an assessment towards the costs of the ICSC.

(b) Economic and Commercial-

In 1969 Canadian exports to Cambodia and Laos* amounted to only \$204,000 (chiefly newsprint) while there were no imports of any significant value. Future commercial relations with Laos will be closely tied to international aid programmes and the cessation of hostilities in the area. There is very little indication of any increase in trade with Laos in the foreseeable future.

(c) Aid-

Canada has provided Laos with a total of \$1.6 million since the inception of the Colombo Plan. A total of 126 students have studied in Canada. Most of this assistance, \$1.5 million, has gone for technical assistance. In 1969, Canada disbursed a further \$1.3 million, most of which went for the Nam Ngum power project under the regional Mekong development programme and committed \$273,000 in grants. There were 13 Laotian students and 18 trainees in Canada and 8 Canadian educational experts in Laos during the year.

(d) Immigration-

Laos is part of the area of responsibility of the Canadian immigration office in Hong Kong. While arrivals from this country have increased in recent years, the numbers are still low. The immigration movement during the past five years was as follows: 1965, —: 1966, 3; 1967, 3; 1968, 4; 1969, 12; 1970 (first 7 months), 70.

^{*}No separate figures are available for these two countries.

APPENDIX "W"

NORTH KOREA (DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA)

- 1. General Facts
 - (a) Area—121,193 square kilometers
 - (b) Population—13 million
 - (c) Economic Data—Gross Domestic Product—US\$2,600 million; Per Capita Income—US\$200 (1969 estimate); Exports—US\$242 million (1968); Imports—US\$234 million (1968).
- 2. Canadian Relations with North Korea

(a) Political-

Canada does not recognize the Democratic People's Republic of Korea (North Korea). Canada supported the UN Security Council resolution declaring North Korea an aggressor in 1950 and as one of the sixteen nations contributing forces to the United Nations Command was a party to the 1953 Korean Armistice Agreement.

The Canadian delegation to the United Nations has worked actively in recent years to make the annual UN

debate on the Korean Question a more meaningful exercise. There would appear, however, to be little prospect in the foreseeable future for any marked improvement in relations between North and South Korea and until such time as there is a change in this situation it is unlikely to be in Canada's interest to consider the establishment of diplomatic relations with the government of North Korea.

(b) Commercial and Economic-

Canada does not extend most-favoured-nation tariff treatment to North Korea and trade with that country has been negligible. There have been some transhipments of Canadian wheat to North Korea via the People's Republic of China but these have not been of consequence.

(c) Immigration and Aid-

There has been no direct immigration to Canada from North Korea and Canada has provided no aid of any kind to that country. For much of the post-war period North Korea limited its foreign contacts largely to other Communist countries in Europe and Asia but it now maintains diplomatic missions in a few non-aligned and neutral countries.

APPENDIX "X"

REPUBLIC OF KOREA

1. General Facts

- (a) Population—31,139,000
- (b) Area—38,452 square miles (98,431 square kilometers)
- (c) Economic data—1969 GNP—US\$8.1 billion; GDP—US\$6.1 billion; Per Capita Income—US\$195; Exports—US\$623 million; Imports—US\$1,824 million.
- 2. Canada's Relations with the Republic of Korea (South Korea)

(a) Political—

The earliest contact between Canada and Korea came about through the activities of Canadian missionaries who, as early as 1880, were beginning to make important contributions to the religious, social and educational life of the Korean people.

The first official Canadian involvement in Korean affairs took place in 1947/8, when Canada served as a member of the United Nations Temporary Commission on Korea. This Commission was constituted to supervise elections throughout the country in order to establish an independent democratic government following 35 years of Japanese rule and three years of separate American and Soviet occupation. In 1948, the UN-recognized Republic of Korea was established in the southern half of the peninsula with its capital in Seoul. The authorities in the North—the original Soviet occupation zone—denied UN competence and established a separate Communist regime which has received neither UN nor Canadian recognition.

Canada's next major involvement in Korean affairs came in 1950 when Communist armies from the North invaded the Republic of Korea. In reply to UN appeal for assistance, sixteen nations including Canada came to the aid of South Korea. The Canadian contingent, the fourth largest, comprised over 20,000 troops, three destroyers and an air-transport squadron; it suffered over 1,500 casualties. The war ended in 1953 with a cease-fire along a line near the original North-South boundary; this armistice agreement has never led to any formal treaty of peace. Canada remains a member of the "Participating Nations Advisory Group" to the United Nations Command in Korea, and is represented by a Canadian Liaison Officer, resident in Tokyo, and his Assistant, what is located in Seoul.

With the end of hostilities in 1953 Canada and the 15 other nations which had provided troops for the United Nations Command adhered to a joint declaration that "in the interests of world peace—if there is a renewal of the armed attack, challenging again the principles of the United Nations, we should again be united and prompt to resist." Canada's responsibilities under this declaration are not precise but it was made clear by the then Secretary of State for External Affairs in a statement in the House of Commons on January 29, 1968 that the Canadian Government would decide its response to any new outbreak of hostilities "in the light of the circumstances prevailing at that time." This statement of gov-

ernment policy should be considered in the light of two sentences on page 11 of the Pacific Review which have direct relevance, viz "At the present time it does not appear to be in the Canadian interest to seek to participate in the various multilateral or bilateral security agreements in the Pacific. However much Canada has in common with the United States, the Canadian outlook is often fundamentally different, reflecting a different historical evolution, different capacities in the international power spectrum, and different interest."

Each year Canada has participated actively in discussions of the "Korean item" in the United Nations General Assembly. The Canadian delegation has worked actively in recent years to bring an end to the automatic nature of this time-consuming debate. To date because of larger international political considerations on both sides Canada has not been successful in this objective.

In January 1963, Canada and the Republic of Korea agreed to establish formal diplomatic relations and a non-resident Korean Ambassador was accredited to Canada. In November 1964 the Canadian Ambassador to Japan, Mr. R. P. Bower, presented his credentials as Canada's first non-resident Ambassador in Seoul. He was succeeded in July 1966 by Mr. H. O. Moran, who is also resident in Tokyo. In December 1964 a resident Korean Embassy was established in Ottawa; the present Ambassador is Mr. Pil Shik Chin. The matter of a resident Canadian Embassy in Seoul is now under consideration and when funds become available the Republic of Korea will probably be the first country in the Pacific region in which Canada will establish a new mission.

A less important but not insignificant aspect of bilateral relations with Korea arises from Korean activity in the North Pacific high seas fishery. The Republic of Korea is not a signatory to the tripartite International North Pacific Fisheries Convention, and therefore has not accepted the "abstention principle" which prevents Japanese fishermen from taking salmon and halibut east of 175° W. longitude. The Korean high seas fishing fleet has been developed quite recently with the assistance of a number of international organizations, notably the FAO. Canadian and United States appeals to the Koreans not to take salmon in the high seas of the Northeast Pacific are based on conservation grounds, but appear discriminatory to the Koreans who see no quid pro quo for abstaining from fishing activity which they are legally entitled to undertake. Representations have been made by both the United States and Canada in this matter, but so far no permanent agreement with Korea has been negotiated.

(b) Trade-

Two-way trade between Korea and Canada rose from a level of \$1.3 million in 1965 to \$27.3 million on 1969 and is expected to exceed \$30 million in 1970. The trade balance is slightly in Canada's favour and our exports include reasonable quantities of fully manufactured goods. (Collins Radio Co. Ltd. has recently signed a \$5 million sales contract for radio transmitters with the Korean Government.) Sulphur, asbestos and potash are Canada's most significant exports to Korea, with shirts, knit sweaters, print cloth and footwear being the leading Korean exports to Canada. These were valued in 1969 at

\$12.1 million or 2.4% of Korea's total exports to all countries.

In 1966 a bilateral trade agreement was signed under which Canada and Korea exchange most-favoured-nation tariff treatment. One of the provisions of this agreement is that the R.O.K. Government applies voluntary restraints on exports to Canada of certain sensitive items at mutually agreed levels under the Long-Term Arrangements on International Trade in Cotton Textiles.

A Korean Consulate-General was established in Vancouver in 1969 with the prime objective of promoting more Korean exports to Canada; an Honorary Consulate-General was established in Montreal in 1970 for the same purpose.

Most of the decisions as to how the country's foreign exchange is to be spent on imports are made by the Korean government. Consequently, a resident Canadian mission in Seoul could well result in more "administratively guided" decisions to "Buy Canadian" in the future. While it is questionable whether this consideration alone would justify the expenditure involved in opening a post in Seoul, the type of export opportunities which are increasingly arising in Korea represent a distinct benefit to set against the costs of resident representation. Such representation would also enable the freer discussion of bilateral issues between the two countries.

(c) Aid-

Canada contributed over \$7 million (the third largest contribution) to the United Nations Korean Reconstruction Agency (UNKRA) and Canadian aid both under the Colombo Plan and through private agencies has continued since that time. Korea became a member of the Colombo Plan in 1962 and during the ensuing years Canada has provided aid in the amount of \$1.2 million. A total of 172 Korean students have studied in Canada. In 1967 a \$1 million loan to be used for the purchase of Canadian dairy cattle and equipment was negotiated with the ROK government. During 1969 Canada disbursed a total of \$500,000 of which \$460,000 flowed from

the loan agreement of 1967. A further commitment of \$2.3 million in grants was made in 1970, mostly food aid to meet a short-term food deficit caused by drought conditions in the previous crop year. The Republic of Korea is not a country of concentration in Canada's aid programme and as the economy is approaching the point of "take-off" (and also because an ever increasing proportion of Canadian aid funds is being funnelled through multilateral organizations such as the I.B.R.D. and its affiliates and the Asian Development Bank), it is not anticipated that there will again be a large-scale bilateral Canadian aid programme in Korea. However, Canada probably may continue to provide food aid in time of emergency and a small amount of technical assistance. CIDA is currently studying some recommendations for technical assistance to the Korean food processing and distributing industry. In addition to assistance under the Colombo Plan, the Republic of Korea receives a considerable amount of development assistance from multilateral agencies-particularly the I.B.R.D. (World Bank) and the Asian Development Bank. Canada is a member of and contributes to both these organizations. Private Canadian charitable organizations such as the Unitarian Service Committee are also active in South Korea.

(d) Immigration-

Immigration from Korea, although relatively small in scale, has increased rapidly in recent years. (In 1965 it amounted to only 93 persons but had risen to 880 in 1969. This level is being maintained in 1970 with 545 immigrants in the first seven months.) Responsibility for handling immigration from Korea was transferred from Hong Kong to Tokyo in 1967; the Tokyo visa office is now processing more Koreans than Japanese and Immigration officials expect that in the coming years, Korea will become an important source of immigrants to Canada. Many Korean immigrants come to Canada via third countries such as Germany and Belgium where they are employed under labour contracts but are often ineligible for permanent residence.

APPENDIX "Y"

THAILAND

1. General Facts

- (a) Area—198,250 square miles
- (b) Population—37.7 million (mid-1970 estimate) Annual rate of increase 3.3 per cent
- (c) Economic Data—(1969) Gross Domestic Product—\$6.5 billion; Per Capita Income—\$166; Exports—\$691.8 million; Imports—\$1,224 million.

2. Canada's Relations with Thailand

(a) Political-

Alone among Southeast Asian countries, Thailand remained independent during the colonial period, acting as a buffer state between British and French zones of influence. In the post-1945 era it has been the most stable country in the region. During much of this period Thailand, a constitutional monarchy, has been effectively governed by the military with a succession of Field Marshals holding the position of Prime Minister. The present constitution, promulgated in 1968, provides for a democratically elected parliament but ministers do not sit in the legislature and are not subject to parliamentary control. Despite Thailand's remarkable stability, the government is faced by a number of problems. Insurgency is a continuing problem in the north, north-east and south. The possibility of the unstable situations in Laos and Cambodia spilling over into Thailand and becoming linked with regional discontent, are causes of real concern to Bangkok.

Thailand has recognized for most of the post-war period the need for a lasting regional structure and has supported virtually every regional initiative proposed in Southeast Asia. In 1954 it joined SEATO as a full member. It was also a founder-member of the Association of Southeast Asia (ASA) and after ASA went into eclipse the Thai Government laid the groundwork for the establishment of the Association of South-East Asian Nations (ASEAN) which has its headquarters in Bangkok. However, regional organizations have not moved much beyond the planning stages and therefore, Thailand, pre-occupied by Chinese and North Vietnamese power, has sought collective security through alliance with the United States. At present the Thais are deeply concerned with the problem of adjusting to a gradual disengagement in Southeast Asia by the United States.

Although the extent of Canada's bilateral relations with Thailand and of our interest in that country has increased in recent years, our relations continue to be friendly but limited. Diplomatic relations between Canada and Thailand were established in 1962 with nonresident accreditation to Bangkok of the Canadian High Commissioner in Kuala Lumpur. A Thai Embassy was established in Ottawa the following year, and in 1967 Canada appointed a resident Ambassador to Thailand.

Canada's direct bilateral relations with Thailand have so far been largely concerned with the developing trade between the two countries and a modest aid programme. A commercial modus vivendi concluded in 1968 should enable Canada to enlarge its markets in the rapidly expanding Thai economy. Consideration is also being given to possible negotiation of an air agreement providing traffic rights at Bangkok, the hub of air transport in Southeast Asia.

Canada and Thailand share membership in the United Nations (and such specialized agencies as the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and the Food and Agriculture Organization (FAO)) as well as the Colombo Plan and Asian Development Bank (ADB). Canada participates as an observer at meetings of the Economic Council for Asia and the Far East (ECAFE), which has its headquarters in Bangkok, and the Mekong Committee. As Canada's interests in Southeast Asia expand there is an increasing need to keep in touch with regional co-operative developments and with the growing importance of Bangkok as a centre for regional organizations, Canada representatives there will be required to establish an extensive range of contacts far beyond those indicated by Canada-Thailand bilateral interests alone.

(b) Commercial Relations-

Although the per capital gross national product of Thailand is still low (\$165), the country has one of the basically soundest economies in Southeast Asia. During the past decade the Gross National Product has grown at the satisfactory rate of about 8% annually while prices have remained firmly stable. The foreign exchange situation has continued strong despite the increasing demand for imports created by development. Economic forecasts for the early 1970's, however, indicate that Thailand will encounter balance of payments deficits largely due to falling world prices for such traditional exports as rice and to the curtailment of United States spending following reduction of its military establishment in Thailand.

In 1969 Canadian imports from Thailand amounted to \$1 million, less than half the amount of the previous year. Canadian exports (chiefly asbestos, aluminum, and aircraft parts) on the other hand, have increased at a modest rate, amounting to \$6.9 million in 1967, \$7.2 million in 1968 and \$8.5 million in 1969.

Trade with Thailand has been inhibited by the fact that until last year, as a non-member of GATT, it was one of the few countries which did not receive most favoured nation treatment from Canada. This situation has changed with the conclusion of a commercial modus vivendi with Thailand signed in 1969. The recent modest increase in exports to Thailand has no doubt been facilitated by conclusion of the modus vivendi but it is also attributable to greater Canadian export effort in the Thai market. In particular the aid programme in Thailand is having the effect of encouraging demand for Canadian engineering services and equipment.

Canadian investment in Thailand has been negligible despite the Thai Government's encouragement of private foreign capital. The only project now being undertaken by a Canadian firm is a joint venture in an alunimum extrusion plant involving Alcan.

(c) Aid—

Thailand is a member of the Colombo Plan and has been a recipient of both grants and loans under Canada's development aid programme. A total of \$4.4 million has been disbursed. Though not a country of concentration, it is a "country of mention" with its own specific allocation. In 1969 Canada disbursed a total of \$1.2 million of which \$1 million was in grants, while further \$0.9 million in grants was committed. Loan offers under the programme have not been utilized, however, though a major project presently under consideration is a feasibility study for a new airport at Bangkok; while negotiations have not vet concluded there is a strong possibility this project will go forward. If this expectation is fulfilled the project should do much to introduce advanced Canadian technology to Thailand and could have important commercial implications.

The main objective of Canadian aid to Thailand under the Colombo Plan has been the improvement of the country's technological capacity and to this end grant aid has been spent on the education of students in Canada—a total of 492 to date. In addition to more than 100 Thais currently studying at Canadian institutions there are some 54 Canadian volunteers and 18 educational experts teaching in Thailand.

Project grants have been alloted primarily to support the agricultural and engineering facilities at Khon Kaen University and a comprehensive school programme. Canada has also financed a highways survey and other projects in water and power resources development, fisheries and forestry are currently under consideration.

(d) Immigration—

In keeping with Canada's immigration policy in developing countries the programme in Thailand is limited to providing service on a responsive basis. Immigration from Thailand is very low, although it shows signs of increasing. During the period 1965 to 1969 only 107 Thai nationals immigrated to Canada. In the first seven months of 1970 the number of immigrants stood at 70.

APPENDIX "Z"

HONG KONG

- 1. General Facts
 - (a) Area—398.5 square miles
 - (b) Population—4,039,700 (1969)
 - (c) Economic Data—Gross National Product—U.S. \$2,400 million; Per Capita Income—\$600; Exports—\$1,700 million; Imports—\$2,500 million.
- 2. Relations with Canada

(a) Political—

Hong Kong has now completedly recovered from the period of uncertainty which developed during the communist disorders in 1967. Although there are still minor irritants in its relations with China (Hong Kong-based British firms have not yet been invited back to the Kwangchow Export Commodities Fair and some observers feel this situation is likely to persist as long as the authorities in Hong Kong continue to detain communist sympathizers arrested during the riots), Peking seems prepared to allow the colony to continue to function in much the same way as it did before the Cultural Revolution.

Hong Kong not only is of value to China as the single largest importer of Chinese products (and consequently the largest source of hard currency) but also plays an important role as an entrepôt and convenient channel for the remittance of funds from Overseas Chinese. In the long term, however, Hong Kong's future is clouded. In 1997 the 99 year lease on the New Territories will expire and with it Hong Kong's main supplies of fresh water will revert to China. Most observers agree that once this happens it will be very difficult for Hong Kong to retain her present status unless economical methods or large scale water desalinization have been developed in the meantime. As a result, no capital projects (such as a badly needed subway system) are being planned in which capital investment cannot be completely recouped by 1997.

As a British colony, Hong Kong does not have direct diplomatic relations with Canada. Our mission there focuses primarily on trade and immigration (both from Hong Kong and Southeast Asia) and soon will take on

the additional role of acting as a support base for our Embassy in Peking.

(b) Commercial Relations—

In the economic sphere, Hong Kong has experienced remarkable expansion during the past decade with overall real growth estimated at 12 to 14 percent per annum over the period. The economy has been transformed from one based solely on commerce to one relying mainly on commerce and industry with emphasis on the latter.

Canada's trade relations with Hong Kong are based on the Canada-United Kingdom Trade Agreement of 1937 by which Canada grants Hong Kong Most Favoured Nation tariff treatment. As a colony of the United Kingdom, Hong Kong benefits from GATT treatment. Special Commonwealth preferences, however, never have been granted to imports from Hong Kong owing to the difficulty in determining their country of origin. Hong Kong is basically a free port with excise duties levied on only five products.

Canada exchanges an annual Memorandum of Understanding with Hong Kong which sets restraint levels on exports from Hong Kong to Canada of cotton fabrics, woven cotton towels and man-made fibre garments.

The balance of trade between Hong Kong and Canada continues to run strongly in Hong Kong's favour. In 1969 we exported \$17.7 million to Hong Kong while importing \$72.9 million. Major Canadian exports were aluminum (\$3.7 million), newsprint paper (\$2.2 million), wheat and flour (\$2.2 million) and polystyrene resins (\$1.4 million). Some of the major imports from Hong Kong were men's and boys' pants (\$7.5 million), sweaters (\$6.2 million), novelties and art goods (\$4.1 million), toys and parts (\$3.6 million), polyester-cotton shirts (\$2.5 million) and transistor radios (\$2.1 million).

(c) Aid-

Canada provides a small training programme which is being phased out as Hong Kong reaches the stage where it can no longer be considred as a developing area.

(d) Immigration-

In recent years Hong Kong has also been an important source of immigrants to Canada with more than 8,000 coming forward in 1969. Many of these are highly qualified while a considerable number bring with them substantial capital resources.

APPENDIX "AA"

REPORT ON CANADA'S RELATIONS WITH AUSTRALIA AND NEW ZEALAND FOR THE STANDING COMMITTEE OF THE SENATE ON FOREIGN AFFAIRS

Introduction

Australia and New Zealand

The present close relationship between Canada and Australia and between Canada and New Zealand is a logical progression from the traditional ties of history and culture, together with shared values which the three countries have enjoyed from the earliest beginnings of colonial status to full nationhood. The past is marked by cooperation in many fields of endeavour of which the common struggle in two world wars is but one manifestation. Since 1945, cooperation has intensified not only in bilateral terms but also in multilateral terms. Australia, New Zealand and Canada played an active part at the time of the drafting of the United Nations Charter and subsequently have been consistent supporters of the principles and objectives fo the Organization and its specialized agencies. Australia, New Zealand and Canada were among the original participants in the establishment of the Colombo Plan in 1950. In addition to the association which all three countries share in the Commonwealth, a common major featue of their foreign policy is their relationship (albeit with special and varied interests) with the United States.

Interlocking in all the foregoing is the geographical fact that Australia, New Zealand and Canada are Pacific powers. There is therefore a need for them to cooperate in bending their energies to the solution of the many longterm problems which confront this area. The Pacific region is subject today, as it has been in the past, to a shifting power balance with the concomitant thrust of the major powers to extend their spheres of influence. The developing countries of the area are also subject to economic and cultural pressures both from within and without and they have need for better standards of living, a proper development of human resources, an advance in technologies and a rational development of natural resources. Therefore, in the interests of stability, social justice, peace and security, Canada along with Australia and New Zealand have important roles to assist in the resolution of these problems. In this respect, the realization by the three countries of the problems facing the area and their obvious willingness to find solutions which have, in various important ways but particularly in aid, been translated into action indicates the importance that must be paid to their continuing cooperation both multilaterally and bilaterally.

Australia

Area: 2,968,000 square miles

Population: 12,000,000, of which 40.1 per cent is under 21 years of age, 51.5 per cent between 21 and 64 and 8.4 per cent aged 65 and over.

Capital: Canberra

Currency: Australian dollar—\$1.20 Canadian

Language: English

Form of Government: An independent member of the Commonwealth, Australia has a form of government similar in many respects to that of Canada. The Queen is represented by the Governor General and the Parliament consists of the Senate and the House of Representatives. The executive power is exercised by the Prime Minister and his Cabinet. In addition to the National Government, or Federal Government, there are six state governments with structures similar to that of the Federal Government, each with a Governor representing the Crown.

Formal diplomatic relations were established between Australia and Canada with an exchange of High Commissioners in 1940. The bases of Canada's relationships with Australia are:

- (a) close and warm ties engendered by a shared heritage, similarities in political and social institutions, together with a parallel development to nationhood;
- (b) common concern with the problems of Asia and the pacific;
- (c) the pursuit of mutual objectives on many international issues confronting the Commonwealth, and the United Nations and its specialized agencies;
- (d) a similarity of purpose in aid to underdeveloped countries thorugh the Colombo Plan and the United Nations specialized agencies;
- (e) a desire on the part of both countries to foster the further development of economic links through trade and investment.

Despite geographical location and climate, the similarities between Australia and Canada are significant and have a considerable bearing upon the desirability of frequent exchanges in depth at all levels of government. The following represents a number of areas where the similarities between our two countries breed mutual concerns:

- (1) Canada and Australia are both Federal States with concomitant problems of Federal-State or Federal-Provincial relations. In Australia, unlike Canada, the powers to be exercised by the Federal authorities were specified, all other power being left to the States.
- (2) both countries have vast natural resources which call for investment, development techniques and marketing;
- (3) Each country has large territories, sparsely populated (Yukon and N.W.T. in Canada and the Northern Territories in Australia) the potential of which has not been remotely developed;
- (4) both countries are deeply concerned with matters pertaining to territorial waters, sovereignty, and the maintenance of an ecological balance in coastal waters;
- (5) both Australia and Canada have indigenous populations which present related if not similar problems;
- (6) both Australia and Canada, while providing raw materials to the markets of the world, are moving further towards industrialization;
- (7) industrialization and increase of population in both countries make the problems of combatting pollution a common interest;

(8) although Canada is larger both in area and population than Australia, both are considered middle powers with all the attendant problems with which they are faced in the world councils dominated by super-powers.

The concerns and problems shared by both Australia and Canada have formed the basis for close consultation and cooperation and a fairly uninhibited exchange of information on a wide range of matters. Notwithstanding, there are areas where Canadian and Australian views diverge. A divergency exists, for example, in the attitude of the two countries to the Viet Nam issue—Australia is participating in Viet Nam as an ally of the United States. Canada is a member of the International Supervisory Commission. A divergency exists also in relation to the Peoples' Republic of China—Canada has recognized the PRC—Australia has not. These divergencies and others arise, however, from geographic and strategic considerations but are not a barrier to the furthering of Canadian-Australian understanding and good relations.

Trade

Canadian-Australian trade is based upon bilateral trade agreements which have followed in the tradition of the British preferential tariff system and fit into the framework of the GATT, of which both countries are members. To promote machinery for continuing discussions between government leaders and officials in Ottawa and Canberra, Prime Ministers Trudeau and Gorton issued a statement at the conclusion of talks in May, 1970 establishing the Joint Australia-Canada Consultative Committee which would meet either at ministerial or official level at least once every two years to examine trade and economic matters of mutual interest.

Trade between Canada and Australia is substantial and has been increasing rapidly over the past few years. Canadian exports to Australia totalled \$163.7 million in 1969 while imports were valued at \$96.3 million. Nearly 85 per cent of Canadian goods shipped to Australia are manufactured and semi-manufactured goods making Australia one of Canada's principal markets for manufactures. The chief exports in 1969 included motor vehicles, newsprint, lumber, wood pulp, asbestos, sulphur, and aircraft parts and engines. Australian exports to Canada are at present primarily agricultural products such as mutton, sugar, beef and raisins. However, Australian exports of fully manufactured products to Canada have increased in recent years.

Canada and Australia share a community of economic interest in a number of fields. Australia is the second and Canada the third largest supplier to Japan, one of the fastest growing markets in the world. The two countries compete on the Japanese market in several bulk commodities including coal, iron ore, copper and grains. In addition, Australia ranks after the United States and Canada as the third largest wheat exporter in the world. Wheat exports account for 8.5 per cent of Australia's total exports compared to 5.8 per cent of Canada's total exports. The increase in the volume of Australian production of wheat over the past decade has been impressive and Australia is increasingly becoming a direct competitor of Canada in such important wheat markets as Western Europe and China, as well as Japan.

Investment

Canadian firms have invested an estimated \$400 million in Australia and there is considerable Canadian activity in current mineral exploration and development in Australia. Investment in manufacturing is both substantial and diversified. Over 20 Canadian firms are involved in various manufacturing ventures in Australia including Alcan and Massey-Ferguson.

Ai

Under the Canada-Australia Air Services Agreement of 1946, CP Air and Qantas Airlines operate weekly services between Vancouver and Sydney—CP Air via Honolulu and Fiji and Qantas via San Francisco, Honolulu and Fiji.

Canada has long sought a relaxation in the capacity and frequency restrictions traditionally insisted upon by the Australian Government, since CP Air gets only a small share of total Canada-Australia traffic, much of which is diverted to United States carriers.

Sale of a Nuclear Reactor to Australia

Earlier this year the Australian Atomic Energy Agency (AAEC) invited AECL to bid on a 500 megawatt (electric) nuclear power reactor to be located at Jervis Bay in Commonwealth Territory. AECL submitted its bid in June along with a number of other countries including the United Kingdom, United States and West Germany. The contract would be worth approximately \$90 million. AECL's system is a heavy water moderated, natural uranium fuelled reactor which is well suited to Australian needs in view of its large uranium deposits. The AAEC specifications call for the use of indigenous fuel by 1980. Canada's main competition will come from the United States, West Germany and the United Kingdom. These countries together with Canada were on the Australian "short list of tenders". The list consisted of four companies from the following countries: Canada (AECL's heavy water natural uranium reactor); the United Kingdom (the Nuclear Power Group's steam generating heavy water reactor using slightly enriched uranium); West Germany (Kraftwerk Union's pressurized water system using ordinary water and enriched uranium); and the United States (Westinghouse Electric International Company's pressurized water system using ordinary water and enriched uranium).

Canada is offering financing terms similar to those offered by other competitors.

AECL is cautiously optimiytic that it will win the reactor contract. The President of AECL, Mr. Lorne Gray, was in Sydney in mid-November for further talks on all aspects of technical, economic and contractual matters related to the sale of a reactor. The AAEC expects to complete its intensive discussions with the four selected bidders (four-teen tenders were received) in order to submit recommendations to the Australian Cabinet by the end of the year or in January 1971.

AECL's main competitors have offered enriched uranium reactors. Recent increases, however, in the cost of enriching uranium may help CANDU's case. The price went up from \$26 per kilogram to \$28.70 per kilogram and further increases to \$30.00 are expected later thiy year. If a

country chooses the enriched uranium reactor system, it has to consider escalating fuel prices whereas use of indigenous uranium would eliminate dependence on other suppliers.

Immigration

The principal objective of Canadian immigration policy is to stimulate Canada's growth by admitting immigrants from throughout the world who are able to contribute to the Canadian economic, social and cultural development. An immigration office was opened in Sydney in 1968 and, in addition to its Australian activity, has area responsibility for New Zealand and the South Pacific. Migration to Canada from Australia has become significant although the Sydney office exists to provide a service rather then to encourage migration. This situation prevails as a result of the informal "gentleman's agreement" which allows for a presence in both countries of immigration officers but does not permit publicity or active recruitment. The "gentleman's agreement" with the Australian government restricting active recruitment effectively precludes criticism that immigration policies of either country are contributing to a "brain drain" problem. The following is a breakdown of migration to Canada from Australia for the past five years: 1965, 2,150; 1966, 3,329; 1967, 4,967; 1968, 3,710; 1969, 3,526; 1970 (first 7 mos.), 1,997.

One development which is of particular interest is the desire of young Australians to enter Canada for a "working holiday". Every effort is made by Canadian immigration authorities to provide service to meet this interest. Another positive feature of Canadian-Australian relations within the whole context of immigration policies is the valuable exchange of ideas on a continuing basis involving a variety of subjects in immigration research.

New Zealand

Area: 103,000 sq. miles

Population: 2.8 million and increases at the rate of 50,000 persons per year. More than 90% of New Zealanders are of British descent and 7% are Maoris.

Capital: Wellington

Currency: New Zealand dollar-\$1.20 Canadian

Language: English

Form of Government: New Zealand is a monarchial state and a constituent member of the Commonwealth. The supreme law-making body with power to legislate for the whole country is the General Assembly which now consists of the Governor-General and the House of Representatives, the former Legislative Council having been abolished since 1950.

Canada's relations with New Zealand are based upon the following factors:

- (a) warm and close relationships resulting from a similarity in political and social institutions and membership in the Commonwealth;
- (b) a similarity of goals and aspirations in most international questions;
- (c) a common concern with the need to assist developing countries through the Colombo Plan, and through the specialized agencies of the United Nations;

(d) a desire on both countries' part to develop strong economic links through trade, investment and tourism.

Over the years there has been close cooperation between New Zealand and Canada. As indicated above, the outlook of the two countries is very similar—each country contributes to regional security, to the economic stability of developing countries and to the promotion of peace and security. The continuing Commonwealth bond has made it possible to conduct close and frank exchanges between Canada and New Zealand as has the similarity of values and aspirations on most international questions. This cordial atmosphere which has prevailed over the years has been of particular value to the delegations of both countries at the United Nations and at other international organizations.

Trade

Canada-New Zealand trade relations are presently governed by a Protocol signed by Prime Minister Trudeau and Prime Minister Holyoake in Wellington in May 1970 which basically adheres to the system of tariff preferences historically provided under the British preferential system. The Joint Canada-New Zealand Consultative Committee which meets at the ministerial or official level every two years was also set up by the two Prime Ministers at their May 1970 meeting. It provides a forum to discuss trade and economic matters of mutual interest.

On a per capita basis, New Zealand has long been one of Canada's best markets. Canadian exports to New Zealand stood at \$38.0 million in 1969, largely made up of manufactured and semi-manufactured goods. Chief exports include sulphur, aluminum, aircraft and parts, potash, copper pipe, plastics and asbestos. In recent years, Canada has felt increased competition from Australia, whence international corporations are increasingly supplying New Zealand directly, and Japan. Canadian imports from New Zealand are composed almost entirely of agricultural products. in 1969 they amounted to \$41.9 million or more than double the 1968 total of \$18.6 million. Principal imports from New Zealand are beef, wool, lamb and dairy products.

Investment

Canadian investment in New Zealand is relatively small and represents only some two percent of foreign investment in New Zealand. Alcan has fairly extensive investments, including a rolling and extrusion mill in Auckland and an interest in Aluminum Conductor Ltd. in Christchurch which manufactures aluminum stranded cables. Canada Wire and Cable and Bata Shoes also have plants in New Zealand.

Air

In May 1969, following a twelve-month notice of intention, the New Zealand Government abrogated the 1950 Canada-New Zealand Air Transport Agreement under which CP Air had operated a direct air service between Vancouver and Auckland. The reason given for this decision was the economic imbalance resulting from the fact that Air New Zealand did not operate a direct service to Canada and had no plans for doing so. Since Air New Zealand had a service to Los Angeles which tapped the Canadian market via the Toronto-Los Angeles Air Canada

service, there was little incentive, in civil aviation terms, for New Zealand to be bound by a Bilateral Agreement under which it did not exercise its rights as granted

Both prior to and following the abrogation of the Agreement, the Canadian Government and CP Air made repeated attempts to have the New Zealand authorities reconsider their decision. Since Canadian involvement and interest in the Pacific area are increasing, we are of course interested in seeing direct air services between our two countries resumed as soon as possible.

Immigration

Total Trade (\$ million)

The Canadian immigration policy vis-a-vis New Zealand is characterized by the admission to Canada of applicants who have the skill or training to fit into the Canadian economy. It is a matter of general policy for Canada as an immigration country to refrain from any activity which would have the effect of encouraging immigrants from other "immigration countries". Therefore, both New Zealand and Canada have informally agreed to confine immigration activities to providing an adequate service to spontaneous applicants. The number of arrivals from New Zealand for the years since 1965 is as follows: 1965, 561; 1966, 728; 1967, 1,201; 1968, 1,105; 1969, 885; 1970 first 7 mos.), 504.

APPENDIX A

CANADA'S TRADE WITH AUSTRALIA

	Exports	Imports
1965	140.4	47.4
1966	117.4	59.6
1967	156.2	64.5
1968	185.7	76.0
1969	163.3	96.3
Jan-Feb 1969	28.6	8.9
	20.0	(Jan 1969; 4.7)
Jan-Feb 1970	39.6	N/A
		(Jan 1970: 7.8)
		(
T		
Exports by Main Commodities 1969 (\$000)		
Motor vehicles, parts and engines		30,704
Newsprint		22 315
Lumber		15,776
Wood pulp		9,345
Aspestos		7.857
Sulphur		7,396
Aircraft parts and engines		4,683
Nickel anodes, cathodes, ingot		2,689
Power boilers, equipment and parts		2,341
Rock drilling machinery		2 129
Hoisting machinery and parts		1,842
Man-made fibres		1,750
Office machines and parts		1,611
Flaxseed		1,499
Hot and cold rolled steel bars		1,497
Organic acids		1,253
Man-made fibres yarn and thread		1,210
Air and gas compressors and parts		1,151

Stainless steel sheets and strips Measuring and testing equipment. Wallpaper. Construction maintenance machinery.	1,079 1,035 1,023 1,018
Imports by Main Commodities 1969 (\$000)	
Mutton and lamb	17,288
Raw sugar	14,113
Beef and veal	13.306
Nickel in ores and concentrates.	6.408
Raisins	5.978
Alumina	5,430
Canned fruits.	5.381
W001	5.370
Metals in ores and concentrates, nes	2.128
Carbon steel plates	1,880
Wines and Drandv	1,766
Canned corned beef	1,340
Fancy meats, edible offal	1.013
Dried currents	752
Sallsage casings	612
	592
Fre-cooked frozen food preparations	588
Drills, taps, bits, metal working machinery nes.	583
	900

APPENDIX B

CANADA'S TRADE WITH NEW ZEALAND

Total Trade (\$ million)		
(Exports	Imports
1965. 1966. 1967. 1968. 1969. Jan-Feb 1969. Jan-Feb 1970.	36.8 41.8 40.7 31.8 37.0 4.2	14.9 15.0 15.2 18.6 41.2 1.5 (Jan 1969: 1.3) N/A (Jan 1970: 1.6)
Exports by Main Commodities 1969 (\$000) Sulphur. Aluminum pigs, ingots, slabs. Aluminum bars, rods, plates. Aircraft and parts. Potash. Copper pipe and tubing. Plastic and synthetic rubber. Plastic film and sheet. Asbestos fibres. Steel, sheet and strip. Iron and steel, welded pipes and tubes. Canned salmon. Hoisting machinery and parts. Engines, turbines and parts. Construction maintenance machinery. Lumber.		4,838 2,242 2,008 1,903 1,364 1,245 1,069 930 791 641 637 621
Imports by Main Commodities 1969 (\$000) Beef and yeal. Sausage casings Wool. Lamb and mutton Butter. Milk, cream and by-products, powdered. Fancy meats, edible offal. Apples. Tableware, ceramic		3,346 2,967 2,074 739 332 309

APPENDIX "BB"

REPORT ON CANADA'S RELATIONS WITH
MALAYSIA AND SINGAPORE FOR THE STANDING
COMMITTEE OF THE SENATE ON FOREIGN
AFFAIRS

Introduction

Malaysia and Singapore

In 1945 at the end of World War II, Malaya was reoccupied by British forces. Civil government was restored with the establishment of the Malayan Union, and at the same time, Singapore became a separate colony. Three years later, in 1948, Malaya became a federation in which substantial autonomy was exercised by the eleven Sultanate States. In 1957, Malaya became an independent state. In September 1963, Malaysia was created comprising the eleven states of Malaya together with Singapore, Sarawak and Sabah. With the creation of this new state, Britain relinquished sovereignty over North Borneo, Sarawak and Singapore. The state of Malaysia in this form continued until August 1965 at which time the Prime Minister of Malaysia and Singapore concluded an agreement on the separation of Singapore from Malaysia. At this time, the Malaysian Parliament passed the Constitution and Malaysia (Singapore Amendment) Act 1965 providing for Singapore to become independent on that date.

Despite some internal and external problems both Malaysia and Singapore have shown a remarkable stability. Both these countries have retained their membership in the Commonwealth and their support of this organization has been valuable indeed. Indeed, both Malaysia and Singapore have looked upon their Commonwealth membership as an important element in their foreign policy.

Reinforced by the close Commonwealth connections developed over the years, Canada's relations with both Malaysia and Singapore have been warm and friendly. In these relations, the basic objectives of Canadian policy are:

- (1) to demonstrate the sympathetic interest of the Canadian Government in strengthening its contacts with Malaysia and Singapore;
- (2) to foster and strengthen the economic links between our countries through an increase in trade and investment and to promote cooperation in harmonizing economic development and investment plans and projects;
- (3) to meet the requirements of social justice by way of development assistance programmes in areas where it will be of greatest benefit to these two countries;
- (4) in keeping with Canada's role as a Pacific power, to increase our political consultations with the end in view of reaching greater understanding of each other's concerns on international matters.

The principal factors in our bilateral relationships with Malaysia and with Singapore are set forth in two separate sections.

Malaysia

Area: West Malaysia—50,670 sq. miles; East Malaysia—77,638 sq. miles; Total—128,308 sq. miles

Population: 10,381,601 Capital: Kuala Lumpur

Currency: Malaysian dollar-35c Canadian

Language: Many languages are spoken in the area—Malay, several Chinese dialects, Tamil and Tribal languages. The national language is Malay but English is widely used in business and in the Federal Government.

Form of Government: The Head of the State is the Yang di-Puertan Agong who is elected for a period of five years from among their own number by the nine hereditary Malay rulers of West Malaysia. There is a federal form of government with a bi-cameral legislature. Residual legislative powers rest with the States.

Canada's close relations with Malaysia are based not only on the warm ties of friendship reached through common membership in the Commonwealth but on a number of other considerations of which development aid and trade are particularly relevant. A brief review of these relationships is set out in the ensuing paragraphs.

Aid

Because of the close relationship between Canada and Malaysa, the latter has been designated as a country of concentration for Canadian aid. In this context, Canada's development assistance programme in Malaysia has been mainly in the area of education and the development of natural resources. Present major projects include the provision of school equipment, a land utilization study, aerial and group surveys of the forest resources in Sabah. In May 1970, Prime Minister Trudeau signed two development-assistance agreements. Funds made available under these agreements include \$2.87 million for Pahang Penggara land development scheme and \$500,000 for an appropriate feasibility study. The Prime Minister also announced Canadian willingness to participate in a water power project at Temengor on the Parak River up to an amount of \$50 million to pay off-shore procurement and foreign exchange costs.

Trade

Canadian-Malaysian trade relations take place within the framework of GATT principles and more specifically on the basis of the British Preference Tariff system although, in view of the nature of the Malaysian economy, it has so far not been found possible for them to reciprocate fully in respect to the latter. The trade balance between Canada and Malaysia runs two to one in Malaysia's favour. Canadian exports to Malaysia amounted to \$15.5 million in 1969 while imports totalled \$32.8 million.

Canada's chief export to Malaysia in 1969 was aircraft and aircraft engines which were valued at \$7.1 million. Other principal exports included wheat, newsprint, asbestos and aluminum. There is a good potential Canadian market in Malaysia for capital equipment, particularly defence equipment (including aircraft), forestry equipment and hotel furnishings and equipment. The chief

imports from Malaysia are tin (\$13.2 million in 1969) and Canada and Malaysia has been concluded whereby Malaysia voluntarily limits the volume of exports in textiles and certain clothing products to Canada. (For break-these relations is set forth below. down of trade figures see Appendix A).

Investment

Canadian investment in Malaysia is valued at \$16 million. At present, participation by Canadian firms in the Malaysian economy is mainly through joint ventures in manufacturing and mining. Among the Canadian businesses which have invested in Malaysia are Alcan, Bata Shoes and Chemetics Ltd. Several other firms have recently shown an interest in projects in Malaysia.

Military Assistance

Because internal stability is essential to economic development, the Canadian government has provided modest military aid in the form of advisory and training assistance and some equipment. Malaysia has made significant purchases in Canada of Caribou and CL41G aircraft. For a period of 21 years Canada provided an adviser to the Chief of the Malaysian Air Staff as well as some additional training assistance related to the Caribou purchase. At the present time, one Canadian officer is in Malaysia assisting in the training of Caribou pilots and six Malaysian pilots are in Canada training at Malaysian expense. In keeping with the policy of continuing this sort of assistance to Malaysia, the Government will be considering new requests for advisers in the defence research field in Malaysia.

Immigration

The Canadian immigration policy as far as Malaysia is concerned is on a responsive basis and is part of the area responsibility of the Hong Kong office. While the number of arrivals from Malaysia has increased steadily in recent years, it is still quite small. The movement from Malaysia to Canada over the past five years is as follows: 1965, 79: 1966, 98; 1967, 99; 1968, 169; 1969, 295; 1970 (first 7 mos.), 233.

Singapore

Area: 224 sq. miles-This area comprises one large island and about 40 adjacent islets.

Population: Approximately 2 million of whom about 75% are of Chinese origin, 14% Malayan and 8% Indian and Pakistani.

Capital: Singapore

Currency: Singapore dollar which is equal to .35 Canadian

Form of Government: Singapore's Head of State is the President who is elected every four years by the Parliament. Political authority rests with the 14-member Cabinet headed by the Prime Minister. The Cabinet is responsible to Parliament. The parliament is a 51-member uni-cameral body elected for a 5-year maximum term by a compulsory universal suffrage.

Canada has enjoyed excellent relations with Singapore crude natural rubber (\$9.3 million). Other significant as a result of the Commonwealth bond and a similar imports included palm and coconut oil, mahogany lumber, outlook in many respects on international problems. The raw sugar and textiles. A bilateral agreement between principal areas of contact have in the past revolved around commerce, technical assistance and consultation on regional and Commonwealth subjects. The extent of

The Canadian programme of aid to Singapore has been heavily oriented toward a technical assistance programme designed to strengthen the service and manufacturing industries which are fundamental to the Singapore economy. In line with this approach Canada has agreed to support the Bukit Merah Vocational Institute at an estimated cost of 1.0 million dollars in equipment and 0.8 million in technical assistance.

Under the educational assistance programme experts have been provided to the University of Singapore and to Singapore Polytechnic Institute. In the training sphere, the main emphasis has been on undergraduate engineering and medical studies. Other fields of importance have been public administration, economics and technical education.

Trade

Singapore, whose strategic location has enabled it to become the world's fourth largest port by providing entrepot services to countries such as Indonesia and Malaysia, plays an important role in the commerce of South East Asia. Singapore's position as a financial transportation and tourist centre for the region also highlights the extent of its importance in the economics of the countries of the area.

Canada's trade relations with Singapore take place within the framework of GATT of which both countries are members and, more specifically, on the basis of the British preferential tariff system. Although Singapore is basically a free port, rapid industrialization has resulted in protective duties and quotas being placed on some items. Canadian exports to Singapore amounted to \$4.8 million in 1969 composed primarily of newsprint, potash, wheat, automobiles, and sulphur. This was 0.3% of the total Singaporean imports of \$1.5 billion in 1969. The potential market in Singapore for Canadian goods is fairly promising in the field of machinery and equipment. De Havilland Aircraft of Canada Ltd., recently completed the sale of five Twin Otter transport aircraft valued at \$5 million. Imports from Singapore amounted to \$22 million in 1969. These were chiefly composed of crude rubber, pineapple, mahogany and textiles. Singapore's textile industry has developed extremely rapidly over the past few years and a bilateral agreement has been concluded between Canada and Singapore whereby the Singapore government voluntarily restricts the volume of textiles exported to Canada.

Investment

Canadian investment in Singapore is minimal, limited to several relatively small establishments.

Military Assistance

At the request of the Singapore Government, Canada has provided modest military aid in the form of advisory and training assistance, particularly as it concerns the navy. In 1969, Canada agreed to train six Singapore midshipmen and has agreed to take a further eight this year under the military assistance programme. In keeping with the policy of continuing this sort of assistance to Singapore, the Government will be considering new requests for assistance in the field of naval training in Singapore.

Immigration

FD / 1 TO

Immigration applications from Singapore are handled entirely on a responsive basis.

APPENDIX A

1969

1968

13 445 10 726 15 524

ÇANADA'S TRADE WITH MALAYSIA (\$000's Cdn.)

1967

Total Imports	22,298	32,824
Principal Exports (1969)		
Aircraft, complete with engines		7,130 2,374
Newsprint		 1,221
Asbestos milled fibres		1,095 1,024

Principal Imports (1969)	
Tin blocks, pigs, and bars	13
Crude natural rubber	6
Palm oil and coconut oil.	
Mahogany lumber	
Raw sugar	,
Apparel	

APPENDIX B

CANADA'S TRADE WITH SINGAPORE (\$000's Cdn.)

	1967	1968	1969
Total Exports. Total Imports.	2,868 11,173	3,159 15,117	4,822 21,967
Principal Exports (1969) Newsprint Potash Wheat, except seed Automobiles Sulphur Radio Transmitting Units Zinc Pulp and paper machinery			821 521 478 441 322 274 182 148
Principal Imports (1969) Crude natural rubber Canned pineapple Mens' and boys' pants Mahogany lumber Shirts and sweatshirts Mahogany plywood			

APPENDIX "CC"

Department of Industry, Trade and Commerce Ottawa 4, Canada	Ministère de l'Industrie et du Commerce
K1A 0H5 The Honourable J. B. Aird, Chairman, Senate Committee on Foreign Affairs, Room 357-S, The Senate, Parliament Buildings,	September 30, 1971
K1A 0H6. Dear Senator Aird:	

During the recent appearance of the Honourable Jean-Luc Pepin before your Committee, we undertook to supply further material on two questions raised by your colleagues.

One question concerned the major exports of Germany and the United Kingdom to China. The latest statistics available are as

follows:

(1) Major German Exports to China in 1969 Commodity	Amount (U	J.S. \$000)
Chemical products (ester, compounds, etc.) Chemical nitrogenous fertilizer Pesticides, disinfectants. Iron and steel products Other metals (plat, copper, cop alloys) Machinery:—		23,685 6,747 3,271 42,137 41,444
Machine Tools, for metals. Machines for special ind. Mill, making, printing machines. Heating, cooling equipment. Pumps. Mechanical handling equip.	659 643 752 859	

Calendering machines Elect. meas. control equip	703 738	9,296
MAJOR EXPORTS		126,580 157,924
(2) Major United Kingdom Exports to China in 1 Commodity		(U.S. \$000)
Discn Fibre uncombed. Chemicals. Diamonds, uned, unset. Iron and steel products (rods, bars, sheets). Other metals (platinum, copper, lead) Machinery:—	• • •	7,406 9,276 22,760 4,685 66,341
Machine tools of metal. Textile, leather machinery. Telecomm. equipment. Elect. meas. cont. equip. Road motor vehicles.	519 436 669	3,767
MAJOR EXPORTS		114,235 124,290

The other question concerned the number of Chinese speaking Canadians. We have been informed that there 120,000 Canadians of Chinese origin of which 40-50,000 reside in Vancouver. Presumably many of these people who are first and second generation Canadians areas Chinese

speak Chinese.

If you have further questions or points for clarification please do not hesitate to contact us.

Yours, sincerely, F. R. Petrie, Director, Pacific, Asia and Africa Affairs Branch.

APPENDIX "DD"

30th September, 1971.

Memorandum Submitted to the Canadian Standing Senate Committee on Foreign Affairs respecting the Pacific Area

by Puey Ungphakorn, Ph.D. Dean, Faculty of Economics, Thammasat University, Bangkok.

Thailand's development and Canada's role in Southeast Asia

I Thailand's Problems

1. Thailand is a country of some 37 million people whose average per capita income in 1970 was about \$175.

In the central plain, which includes Bangkok, the 1970 income per head was about \$290, in the South about \$195, in the North about \$135, in the most populous Northweast about \$100.

The rate of growth of the Thai economy during 1960-70 averaged about 8% per annum, highest in the Central Plain and lowest in the Northeast. In the Northeast, in some years the rates of progress were lower than the rates of population growth, hence the stagnation of per capita income in this part of the Kingdom.

- 2. The economic progress of Thailand as a nation from 1960 to 1967 was due to several factors:
 - (1) the increase in the prices of her exports;
 - (2) the success in the diversification of her agriculture;
 - (3) the big increase in foreign private investment (principally from Japan, Taiwan and the U.S.A.);
 - (4) the increase in foreign assistance, especially in loans from international organizations for intrastructure investments;
 - (5) the increase in domestic savings, both government and private;
 - (6) the increase in the U.S. military spending, both by government and by military personnel.

The result was an impressive growth (with stability) and steady surpluses in the annual balance of payments.

- 3. The present balance of payments difficulties started in 1969 when the deficit amounted to \$48 million. This was followed by a further deficit of \$128 million in 1970. It is expected that the difficulties will persist for several years. The reasons for the current problems are:
 - (1) the drought and bad crops in 1967 and 1968;
 - (2) the sharp fall in the prices of rice and rubber since 1969;
 - (3) the withdrawal of U.S. troops from S.E. Asia;
 - (4) the stagnation in agricultural production in general;
 - (5) the increase in Government military and security spending, at the expense of development investment, and the drop in government savings.

- 4. The above summary indicates two main categories of problems for Thailand:
 - (a) the current problem of correcting the balance of payments difficulties;
 - (b) the perennial problem of redistribution of wealth and income among the regions of the Kingdom, while keeping the national growth rate reasonably high.
- 5. The current problem can and must be solved by the following measures:
 - (1) to further diversify production and export and to rely less on rice and rubber;
 - (2) to compensate the loss in income from the U.S. spending by rapid promotion of tourism;
 - (3) to promote further industrialization by attracting more foreign private investment, particularly from countries other than Japan;
 - (4) drastically to improve internal administration to combat and prevent insurgencies, thus saving government expenditure on defense and security for economic development;
 - (5) to improve public finance in order to enable a greater rate of savings and investments domestically;
 - (6) to obtain more loan and other assistance to finance development projects.
- (6) The long-term objectives of steady growth with emphasis on social justice can be reached as follows:
 - (1) by the measures mentioned in 5, persistently and consistently carried out over a long period;
- (2) by concentrating investments, both public and private, both domestic and foreign, in the rural areas in order to increase the income of the poorer section;
- (3) by giving the highest priority to education development, both formal and out-of-school education, at all levels, especially outside Bangkok and the bigger cities.
- 7. Ultimately, in the long run, the development of the whole Southeast Asia will depend upon, not only the endeavour of each nation separately, but the degree of co-operation among them. International division of labour among regional nations will enable each of them to utilize modern scientific and technological knowledge to a fuller extent. Industrialization is the objective of each government; but for each government to attract the same kind of manufacturing industry, hoping to sell the same products to its neighbours, will bring about inefficiency and losses in the face of low purchasing power in each domestic market. Each country industrializing separately will never stand a chance of survival against the competition from such giants as Japan, China, India, Pakistan, not to mention Europe and America. In the field of agriculture, international division of labour within the region will bring about cheaper food and raw materials which are the essence of social welfare and industrial viability. In the political field, Southeast Asian closer co-operation will provide collective security. The problems of overseas Chinese are essentially similar in all these countries, with varying degrees of intensity. The old fear of Japanese dominance can be allayed by closer regional co-operation.

Incidentally, closer co-operation among Southeast Asian nations will achieve the objective of Professor Higgins' "Marshall Plan" proposals, without the drawbacks pointed out by the witnesses from CUSO (Proceedings Papers No. 14 and 15), and without the involvement of such bodies as E.C.A.F.E.

II Canada's role in Thailand and Southeast Asia

- 8. Thai Government's responsibility. If the above brief analysis is accepted as correct, the measures to solve the current problems and promote social and economic development in Thailand rest in the main upon the Thai Government and people. Economic and social development plans must be formulated by the Thais themselves; the reform of administration cannot be done for them by others, except to provide specific technical assistance within the framework of Thai policy and priorities. This principle of self-reliance must be stated.
- 9. Need for External Aid. Nevertheless, there is a real need for assistance from abroad for technical knowledge and for accelerating development efforts. Domestic resources are inadequate both in quality and quantity, in manpower and technology and funds, in order to maintain reasonably rapid progress.

In asking for, and providing for, foreign assistance, it is most important to look at the over-all development plan, identify deficiency gaps and help fill them. Both donors and recipients must avoid the mistake of "supply creating demand", e.g. cases where donors' offers of aid in otherwise low-priority projects are used as justification to promote the priority ranking of those projects.

10. Development Plan 1971-76. In the Third Development Plan, due to start on 1st October, 1971, Thailand intends to invest a total sum of 100,275 million Baht over five years for social and economic development. The gap between this sum and the estimated domestic resources amounts to 16,930 million Baht (11,930 million in loans and 5,000 million in grants including technical assistance).

Based on past experience, the Plan envisages that the major donors will be, in descending order of magnitudes: The World Bank and the Asian Development Bank, the U.S.A., Japan, Germany, the U.K., Canada, Denmark and others.

Of the Canadian expectation, or rather, expectation from Canada, the Plan hopes for 100 million Baht loans, and the continuation and expansion of technical assistance in the development of natural resources, education and pre-investment feasibility surveys.

11. Quality of aid. The quality of assistance is at least as important as the magnitude of financial aid. To command respect, the expert sent to advise developing governments should be highly qualified and widely experienced; his assistants may be less so. To promote personal relationships or even gain affection, both expert and assistants should be sympathetic and devoted to the jobs and the host countries. On the other hand, they should not be too weak and play into the hand of their counterparts. Professional integrity and regards of the interest of the host country must be their primary consideration.

To provide technical assistance in order to find jobs for any new graduate or any "old hand" would be a grave mistake and would wipe out more than the benefit intended.

For their keenness, regards for Thai viewpoints, and flexible approaches, I find that the CUSO personnel that I know in Thailand is most satisfactory.

What is said above regarding personnel applies equally to commodity or equipment assistance: in this case, the quality is readily detected.

12. Priority points for assistance. In my opinion, the real success of development in Thailand (and in other developing nations) depends on the development of man (a long-term effort) combined with the short-term improvement in his livelihood. Another consideration is social justice which is an essential factor in strengthening national unity and the national will to develop further. Hence, the question of raising the income and wealth of the poorer sections of the nation must occupy the first priority.

These considerations lead me to conclude that the highest priority projects in Thailand must be in the field of rural development with its twin branches of agriculture and rural education. CIDA has rightly extended its activities in agriculture, in helping Khonkaen University in the Northeast, and in the promotion of comprehensive secondary schools. I would like to see Canada do more in this direction.

As to formal education, the need for improving the primary and secondary levels in the rural areas is really desperate. Moreover, there are at present several millions of Thai youngsters of the 12-25 age group who are illiterate or who have lost their literacy, ill-acquired during their four-year schooling. These people are, and will constitute, the main productive labour force on whom Thailand's capacity will depend. To help them to be able to help themselves, to be able to take advantages of the government development projects, to be able to increase their income, will be the best catalystic factor in the whole process of national development. Hence, I strongly recommend that the government of Thailand combine its agricultural extension service with an "adult" literacy (out of school education) drive, in the hope that both short-term and long-term problems will thus be solved. I also recommend to Canada to assist Thailand in this project which is in the process of formulation.

These projects involve little foreign currency. It needs rather considerable dedication on the part of the personnel and a considerable amount of local currency. I think we Thais can provide the necessary personnel from volunteers among University graduates and other workers. CUSO and other volunteers can also help. Local currency is the main bottleneck. Most donors are rigid on the question of providing local currency. Can Canada be more flexible on this point, making exception for exceptional crucial projects?

13. Partnership. I am pleased by the evidence of CUSO in Proceedings Paper No. 15, in which the principles of "integrated approach" and "partnership with the local counterpart" are affirmed. I wholeheartedly agree.

The idea of partnership in development between rich and poor has already been adopted by Canada in the case of the International Development Research Centre where selected people from developing countries are invited to sit with the Canadian nominees on the Governing Council.

In Thailand, there are a number of voluntary non-government organizations which work for urban and rural development in various fields. The principle of partnership should be extended, not only to recipient governments, but also to non-governmental organizations. CUSO, and perhaps CIDA as well, for instance, will benefit from the contact with these organizations, whose views and methods of work may be different from those of government officials, and sometimes they are more efficient and more relevant. In advocating this, I do so as a government official and I fully realize that CIDA and CUSO have to work through government departments. But in most instances there need be no conflict of the two methods of approach. On the contrary, the potential enrichment possibilities are there.

The question of training CUSO personnel was raised in the Proceedings of the Committee. I would like to make a submission which might serve as an example in the partnership concept. In the Graduate Volunteer (rural development) Programme of Thammasat University, volunteers are subject to two or three months' training and orientation before being sent out to work in the rural areas (so far entirely teaching in rural schools, soon to be extended to health and other works). If CUSO personnel, or CIDA officials, working in Thailand could join in this training programme, they would be most welcome and I am sure that both sides will greatly benefit from such a contact.

14. Private investment. On the question of private investment, Thailand has always adopted an open-door policy. So far, Japanese, Taiwanese and U.S. investors have dominated the field. This is not a healthy state of affairs. Japan's prosperity and the ubiquity of the Japanese are viewed with suspicion throughout Southeast Asia.

We want Canadian investors of the kind which does not appear 'exploitative'. Why not send a Canadian investment mission to Southeast Asia to find out the best possibilities and methods of private investment there, with appropriate and specific terms of reference on investment, not merely to survey for export possibilities?

15. Southeast Asian Regional Co-operation. In paragraph 7, I have advocated close co-operation among Southeast Asian nations. To help bring it about, Canada can play a very valuable role, since Canada's reputation is good there. Canada's interest and continued assistance in such regional projects as the Mekong development, the Asian Institute of Technology (AIT), the Southeast Asian Ministers of Education Organization (SEAMEO), are most welcome to the participating nations. I hope that this policy will continue and that Canada will help us on the road towards closer integration.

While I was the Governor of the Bank of Thailand (1959 to August, 1971), my fellow Governors in Southeast Asia and I have made several attempts to form a cohesive regional voting group in the International Monetary Fund and the World Bank. These efforts have so far failed because several developed nations have objected on the ground that it might enlarge the Board of Executive Directors in these institutions. The present international monetary crisis demonstrates to us all the more clearly the need for closing the ranks of developing countries, especially on regional basis, because they have many characteristics in common. Our views, then, could be put across to the developed governments more effectively. The plight of poorer nations tend to be ignored in such cases because the more developed nations have always tried to solve their own immediate problems for their own sake, for the sake of trading and export, not for the sake of world development. This is an example where Canada can help us by openly supporting our efforts for closer co-operation, which ultimately is a necessity for each Southeast Asian nation.

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